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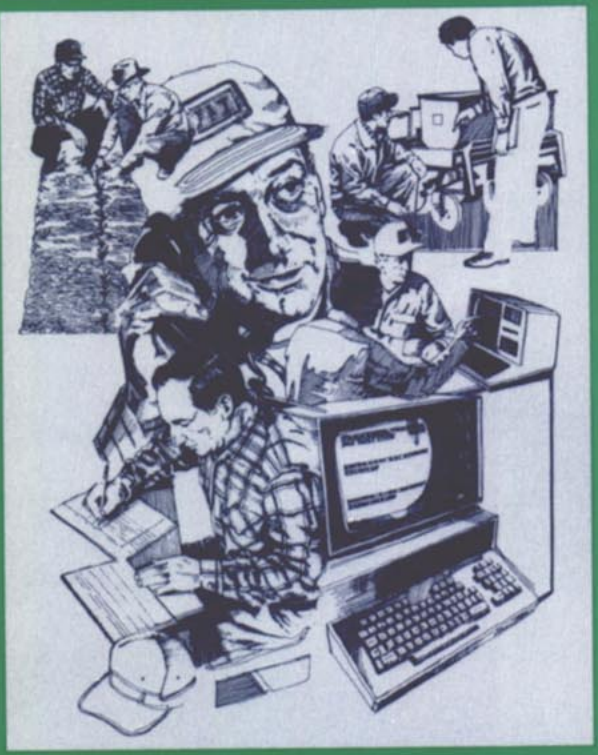

The Farm Credit Crisis

Rewarding Uniformity

The Great Depression

The Poor Among Us

MARCH 1988

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CONTENTS
MARCH
1988
VOL. 38
NO. 3

84 Rewarding Uniformity
Kenneth A. Bisson
A push toward conformity threatens the integrity of the individual.

86 "Blat": Corruption in Eastern Europe
Michael Brewer
An exchange student learns how Communist economies really work.

90 The Great Depression
Hans F. Sennholz
The causes and consequences of the economic upheaval of the 1930s.

97 The Poor Among Us
Ruth Burke
The virtue of self-reliance in the face of hardship.

99 Man at His Best
Robin Lampson
How a small farming community came to the aid of survivors of the 1906 San Francisco earthquake.

103 Libertarian Sympathies: Heart and Mind
Joseph S. Fulda
The twofold appeal of the freedom philosophy.

106 The Minimum Wage—Good Intentions, Bad Results
Roger Koopman
Wages rise in response to the creation of new wealth through greater productivity.

108 The Farm Credit Crisis
E. C. Pasour, Jr.
How government intervention has resulted in agricultural credit problems.

114 The Morality of Freedom
Robert A. Sirico
The necessary condition for a truly humane society.

118 A Reviewer's Notebook
John Chamberlain reviews "Debts and Deficits" by Hans F. Sennholz.

120 Other Books
"Economic Liberties and the Judiciary" edited by James A. Dorn and Henry G. Manne. "America's March Toward Communism: Forsaking Our Heritage" by Mark W. Hendrickson.

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PERSPECTIVE

The Enemy Within

"The fault, dear Brutus, is not in our stars, but in ourselves . . . ." These words, from *Julius Caesar,* describe a theme found in many of Shakespeare's plays—people being destroyed not by some enemy outside themselves but by an enemy within.

Those of us who value liberty frequently speak as though the enemies of liberty are found outside ourselves. And in truth there *are* such enemies—men and women committed to collectivism and busily working to impose it upon their fellows. Yet the significant enemy is to be found within ourselves. The name of that enemy, I suggest, is compromise.

Some measure of compromise may be inevitable. I avail myself of the services of a registered medical practitioner, even though, in Australia, I am thereby the "beneficiary" of partially socialized medicine. I attend the Australian Ballet, even though it is partly funded by money coercively extracted from my fellow citizens. In a fallen, statist world, pristine purity is seemingly impossible.

Yet for all this, many of us betray liberty by compromises we could avoid were we willing to pay the price. For example, we justify our acceptance of social security by claiming that we are merely getting back monies originally taken from us. In truth we are not! The money taken from us has already been spent. The money we receive is being taken from others, usually people younger than we are. In accepting that money, we are partners in plunder, sharing in the loot. More seriously, this compromise of principle reduces our stated support of liberty to mere words.

We do well to take seriously the activities of enemies of liberty. We delude ourselves, however, if we pretend that all these enemies are to be found outside us. The enemy we can most easily conquer is the enemy within, the spirit of compromise that makes our eloquent defenses of liberty ring strangely hollow.

George Meredith said it well:

> In tragic life, God wot,
> No villain need be! Passions spin the plot:
> We are betrayed by what is false within.

—John K. Williams

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Sign of the Times

Individuals and corporations are required by law to comply with all rules and regulations that have been published in the Federal Register. But just keeping up with the actions of the executive branch each day can easily amount to a full-time job. . . . Even the President of the United States isn't expected to keep track of the executive branch by reading the complete Federal Register every day.

—from an advertisement offering abstracts of the Federal Register.

The Freedom to Innovate

A centrally managed economy is a static economy. It produces what has previously been produced. It endeavors to satisfy only existing and well-recognized wants. If there had been universal socialism throughout the past century we would still be making buggywhips.

The free market permits one to try new ideas and either to succeed or fail. It is a risk that many will accept because there is ample reward for succeeding. The entrepreneur develops and offers to the free market a new product or service. He takes the risk of offering his creation to a non-existing or at least non-recognized market. He either succeeds or fails. The response of the free market determines which is the result. If he does succeed there is the chance that a new industry will emerge.

Centralized planning denies this opportunity to innovate. The citizens of such a government produce only what the central authority requires of them. The risk/reward factor is missing. The extent to which a socialist or communist society can expand is dependent on what it can copy from societies operating under the free market system.

—E. W. Colt

Stolen Jobs

What do a luxury hotel in Detroit, a 400-seat seafood restaurant in Baltimore, a Chrysler-Plymouth dealership in Salt Lake City, an amusement park in San Juan, Puerto Rico, and two Mitsubishi manufacturing facilities in Braselton, Georgia, have in common? They all are being built, in large part, with your tax dollars.

Over the next two years, reports the December 14, 1987, issue of *Insight,* the Department of Housing and Urban Development will ladle out $450 million in "Urban Development Action Grants." These grants, HUD officials tell us, are needed to create jobs.

But what about the jobs destroyed by these grants? Every dollar the government spends on a politically favored group is a dollar that you or I won't be able to spend or invest as we see fit. Rather than creating jobs, Urban Development Action Grants steal them from other parts of the country.

—BJS

Felix Morley Memorial Prizes

The Institute for Humane Studies has announced its 1988 Felix Morley Memorial writing competition.

The competition is designed to identify young writers who are interested in the free market philosophy. Applicants (college-age writers, but not necessarily enrolled in school) must submit an application, along with 3-5 clippings of editorials, op-eds, columns, essays, criticism, investigative pieces, or similar materials. Cash prizes will be awarded. The application deadline is June 15, 1988.

For more information, contact

Morley Prize Secretary
Institute for Humane Studies
George Mason University
4400 University Drive
Fairfax, VA 22030
(703) 323-1055

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Rewarding Uniformity

by Kenneth A. Bisson

"Because we had a 100 percent sign-up for fluoride treatments, we are going to make and share a pizza." I was dismayed to read that statement in my son's weekly parents letter from his third grade teacher. A push toward conformity had tested the integrity of a class of third graders.

What will a child do when facing a system designed to reward uniformity? Let's consider this question using the relatively innocuous case of offering a pizza lunch for 100 per cent sign-up for school fluoride. There will be two perspectives from which a student can consider a teacher's reward. Both perspectives provide a dismal view of rewarding uniformity.

We begin by assessing the effect of the school fluoride on each student's dental health. A decision to participate should depend on each student's unique circumstances regarding the fluoride content of his water, his toothpaste, and his preference for receiving any needed supplements from the family dentist or from the school.

As a family physician I guide parents making fluoride choices. In the well water across our county, natural levels of fluoride range from far below to far above the standard city water's controlled level of one part per million. I see children with fluorosis from excessive fluoride and children with caries which might have been avoided by increased fluoride use.

Thus, depending on his non-school fluoride use, a student may view the school's program from one of two perspectives: 1) I will benefit from participating in the school fluoride program, or 2) I will not benefit from participating in the school program. Even at this level of analysis the decision to reward 100 per cent participation begins to look questionable. A closer inspection of the effects on the individuals in either camp should lead to the rejection of reward systems that require uniformity.

First consider the student who wants to participate and will benefit from additional fluoride treatments. His opportunity to receive pizza may be denied by the failure of another student to select the alternative preferred by the teacher. Will he feel motivated to urge classmates to select the preferred choice? What message is being given about individuals' thinking for themselves? Are these students being asked to "help" others to make the "right" choice? I believe this is unfortunately the case.

Although they may not be consciously aware of it, these students will be influenced by the many implications of this situation. The teacher's push toward conformity glorifies peer pressure. This is the same peer pressure we often ask our children to resist by urging them to "think for themselves."

Now let's consider the student risking harm from additional fluoride. For this student, a choice *not* to participate will preserve his teeth. Making that choice requires him to be true to himself. He thus demonstrates confidence in

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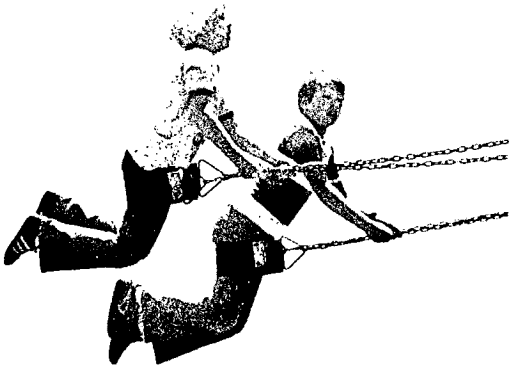

his ability to pursue his own values. By honestly doing so he maintains his integrity. Although his relationship with his teacher and classmates may unfortunately suffer, his self-esteem is not diminished by that choice.

Suppose however that this student fails to pursue his own values and instead sacrifices them in order to select the choice preferred by his teacher. Here the reward system is revealed to be a source of true misery. Of course, now everyone will get to enjoy a pizza lunch. But in abandoning his own values, this student is passing a judgment on himself that, after many repetitions, will cost him much more than unattractive teeth. When a child surrenders to pressure and denies the importance of his own values, he also surrenders his self-esteem.

Self-esteem is the reputation we acquire with ourselves. I believe that a primary challenge for parents and teachers, in working with children, is to enhance self-esteem. As a parent, I consider the encouragement of each of my children's self-esteem to be as important as providing food, clothing, and shelter. A high self-esteem is a major requirement of a fulfilling life. An individual with low self-esteem, by definition, will feel inadequate and unworthy of a happy, successful life. Such an individual will make choices that bring about a life that's as miserable as he believes he deserves.

I hope every parent and teacher will consider enhancing a child's self-esteem when choosing reward systems. Providing motivation in appropriate ways is not an easy task. As parents and teachers we must administer our power as an authority figure carefully, with deliberate forethought. Rather than reward uniformity, we can seize opportunities to celebrate individuality.

My focus on the individual in the above discussion does not imply that I undervalue the magnificent benefits of teamwork and group activities. Indeed, the best of achievements result from individuals working together! But it is *because* of individual differences that groups of individuals with differing strengths can produce more than can a group of clones. Imagine basketball teams comprised of all centers or all guards. Their performance would be reduced because of their uniformity. They would be as ineffective as would be a school full of only math teachers. Uniformity is a detriment to successful teamwork.

In conclusion, a reward system based on uniformity is unwise. Because of our valuable individual differences, it is uncommon for a single choice to be right for each of us. Even in that case where all individuals may actually benefit from selecting the same action, requiring uniformity denies the reward to all whenever one classmate chooses poorly. Usually such a reward system becomes an unreasonable test of integrity for the individuals who ought to make the unrewarded choice. Rewarding uniformity tempts these students to trade their self-esteem for the approval of their peers and teacher.

Encouraging individuals to be responsible for themselves results in a society of better individuals. Such individuals confidently exercise their decision-making capacity rather than defer to others. We can reward uniformity or we can encourage self-responsibility, competence, confidence, and integrity. The better choice is obvious. □

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"Blat": Corruption in Eastern Europe

by Michael Brewer

When I first arrived in Yugoslavia as an exchange student, I knew three things: It was socialist, it was in Eastern Europe, and I would spend a year there. I also knew three words: *hvala, dovidjenja,* and *pivo*—"thank you," "good-bye," and "beer." I remember proudly pronouncing my first word in the language, *PECTOPAH,* only to find that it was in the Cyrillic alphabet and actually read "restoran," meaning "restaurant." Though I now blush at the thought of my naïvete, during my year-long stay in Yugoslavia I came to know the workings of a system misunderstood by most foreigners.

Ironically, one needs to know little Marxist-Leninist dogma to understand Eastern European economies. By contrast, most any capitalist is probably better suited to understand them . . . with the addition of two words—*blat* and *nalevo*.

The most sought-after commodity in Eastern Europe is *blat*. And *blat* is not Russian for caviar, nor Latvian for sable. *Blat* is Russian slang, and loosely means "influence or connection." The *blat* market is an underground where those with "connections" barter with others *ty mnye, ya tebye,* "you scratch my back and I'll scratch yours." It involves no money, only goods and favors.

Working *nalevo,* on the contrary, is often a substantial source of income for Soviet families. Soviets call it "creeping capitalism," and it literally means "on the left," but it translates more like, "on the side" or "under the table." In the Soviet Union, an additional income is vital to everyday existence. In Odessa, dubiously known as the "Chicago" of the USSR, there is a saying, "If you want revenge on a man, let him live on his salary." It's a terrible fate. No one can imagine it.[1]

The magnitude of *blat* and *nalevo* is not easily understood. They constitute much more than just a "black market," where denim-clad Soviet youth accost foreigners with offers of rubles for Levi's or thin western ties. "*Blat* is an essential lubricant of life."[2] Communism seeks utopia, and *blat* serves as the cushion between reality and ideology.

My host-father, a burly Slav with more than a hint of Gypsy blood and Gypsy guile, had an unusually ambiguous job title by Western standards.

"He is a *Direktor,*" my host-brother would tell me. Nothing could have been more vague. In Yugoslavia, *Direktor* is a title held by nearly everyone given a desk and a telephone.

He often took me to "work" with him. But we wouldn't go to his office. Instead, we frequented working-class taverns owned by friends of his. We would then sit at a smokey table with Gypsies—men with converging eyebrows and missing teeth—or those with briefcases and peppered gray hair, drink beer or *shlivovitz,* and listen to the loud folk music the band played. Through the din, my host-father would talk, argue, and smoke a lot of cigarettes. This always went on late into the night as we moved from restaurant to restaurant, and often became more like an unruly drinking bout as the night wore on.

These same restaurant owners, accordion players, circus owners, and other such folk often visited our house when my host-father failed to make his rounds. These visits were almost exclusively nocturnal, but because my host-brother and I slept in the nearest room, the conversations were always too loud to disregard.

One night an old salt with a wooden leg stopped in. He had a nasty habit of fiercely rapping his rings on the table when making a point. My host-mother was a strong woman, in mind as well as muscle, and any other man would have been quickly ushered out, but she did nothing. He brought with him a large sack filled with coffee and chocolate, both unattainable in Yugoslavia at that time, as well as sev-

Michael Brewer is studying Russian and Slavic studies and English at the University of Arizona.

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eral bottles of my host-father's favorite drink. The two ended up talking late into the night, sharing alternate drinks from a communal bottle, and seemed to come to some sort of agreement only hours before dawn.

The next day I began questioning my brother, and paying closer attention to my father's actions. I learned that my host-mother had once been a folk singer, and my father played the drums in the band. At this time, he had learned all the ins and outs of the music business. Then, when my host-mother gave up singing, he had landed a job with the government as an entertainment promoter.

The circus owners and musicians came asking for contracts to perform at certain locales, and the restaurant owners came asking for certain performers. My host-father was the middle man. He had influence, and he used it well. On several occasions when it was impossible to get coffee in the country, we were never without it. When most people had to wait five years for a telephone, ours took six weeks. My host-brother, who had passing grades only in English and physical education, was miraculously accepted into the best school in Belgrade. And, the last time I visited, my host father had somehow acquired (as gifts, of course) a new remote-control Sony television, two VCRs, and a video camera.

This is the *blat* market in Yugoslavia, a non-allied socialist country with equal billing in East and West.

Midway through my year in Yugoslavia, two Americans, a West German, and I planned to go to the Soviet Union with a Yugoslav tour group. Going with Yugoslavs, the Soviets would be more friendly toward us as "brothers in communism," and, most important, it was very cheap. I was very poor at the time and had just enough money for the tour price. So, upon reaching the border, I decided to sell my jeans.

Soon after we boarded a train to Kiev, on the Soviet-Hungarian border, a group of black-marketeers knocked on our compartment door. My friends and I bartered with them for a while, and I sold my jeans. We then asked them about themselves, and they ardently told us about their hometown near the Black Sea. I was surprised at how friendly and warm they were. I later encountered another type when I ran out of money in Leningrad and had to sell a swimming suit, some shorts, and a T-shirt that said "The Rolling Stones."

A young marketeer and I had come to an agreement on the sale. He counted out 2 twenty-five ruble notes, 5 fives, and 25 ones into his hand. 100 rubles—the arranged price. He then stopped. "Vait," he said, "I give you five more." And with the dexterity of a Gypsy card shark, he slid the big bills from the bottom of the stack with his other hand. He then reached into his pocket, deposited the big bills, took out a crisp five ruble note, and slapped it on top of the remaining 25 ones. Total—30 rubles. He grabbed the merchandise and disappeared. Unaware of what had taken place, I was left 70 rubles short (a little over 80 dollars), smiling like a man who had just beaten a pool hustler for five bucks, soon to lose his shirt.

Had I been on a train (as during my first sale) I could have tracked the thief down, since trains in the Soviet Union seldom stop between major cities. A city marketeer's disappearance, however, is faster than the Russian he speaks. A red fox in a green meadow must be cunning. And likewise, the "capitalist" under communism.

A Drop in the Ocean?

This is the extent of corruption seen by any foreigner visiting the Soviet Union: getting taken. I thought I had found a massive underground, but in reality, the black market is only a fraction of the whole.

Dr. Delbert Phillips, a professor of Russian at the University of Arizona who has been taking yearly excursions to the Soviet Union for over 20 years, agrees. In an interview (February 17, 1987) concerning corruption in the USSR, he told me, "the black market is only *kapya v morye,*" a drop in the ocean. It is an ocean that accounts for up to 40 per cent of the turnover of the entire economy.[3] *Blat* is half that ocean.

Blat ranges from finding two tickets to the sold-out hockey final, getting the freshest fruit, or buying a car in less than five years. Contrary to Western ways, however, menial jobs often have the most *blat*. Phillips, who knows the Soviet poet Yevgeny Yevtushenko, said that

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"even the famous poet has to bow to the butcher for the best cuts of meat." Plumbers, auto mechanics, store clerks, and doormen, all have as much, if not more, *blat* than teachers, doctors, or engineers.

For example, Sasha, a book vendor and member of what Phillips calls his "Russian family," acquired a car in a little over six months by accumulating favors from the right people. When a sought-after book reached the shelves, he would take it off and save it for "friends" who wanted it. Six months and many books later it paid off.

Blat is an unspoken agreement, but "like Sicilian godfathers, Russians remember their obligations and know when it is appropriate to pay them."[4] For this reason, the system works.

The other half of the ocean is working *nalevo*.

An American student, who recently studied in the Soviet Union, told me about one of his experiences that typifies Soviet services.

In the communal bathroom in a dormitory, he noticed that one of the sinks had pulled out of the wall and was being supported by the pipes alone. He reported it to the dorm manager. Eager to please the American, the manager immediately sent for a repairman. In a week the repairman arrived and set the sink back in place with a few bolts drilled into the cinder block wall. The sink was heavy, however, and the cinder blocks crumbling. Two days later, the sink broke away a second time. The repairman returned, days later, and repaired it as he had before with the same result. It broke again. The embarrassed dorm manager then decided to call a *Maistor*, master of the trade. A week later the master came. He mixed up some quick-dry concrete and plastered the sink to the wall. The dorm manager was satisfied. Now, however, the sink weighed twice as much and soon pulled out from the wall even further. When the student left Moscow a month later, the sink was still broken.

Repair work of this caliber is scarce in the Soviet Union. It is usually worse. The demand for quick, quality service has opened up an enormous underground of working "on the side."

In a typical apartment service call, a repairman is first sent simply to diagnose the problem, be it the refrigerator, plumbing, heating, or whatnot. This diagnosis can take a number of weeks. Then a second person is dispatched to repair it—another few weeks. A month to repair a single problem. Often, however, the first worker to arrive will repair the problem on the spot for cash. This kind of work can more than double a repairman's monthly salary. It is exponentially more profitable to work privately. This goes for other professions as well.

For example, on a good day off, an auto mechanic can make half of his monthly salary doing private repairs. Construction workers often intentionally do bad work, and later come back privately to fix the job. Health care in the USSR is poor enough that doctors and dentists can make monumental sums on the side. And it is not uncommon for professors, who make less than bus drivers, to make six times their salaries tutoring the failing children of wealthy families.

In a speech to party members in Leningrad, Mikhail Gorbachev said, "Try to get your apartment repaired, you will definitely have to find a moonlighter . . . He will steal the materials he needs from a construction site." The theft of state-owned materials is not unusual. Most citizens don't see it as theft at all.

Michael Binyon, in his book, *Life in Russia*, provides a blatant, humorous example of theft from the State for personal gain.

> In August 1979 responsibility for the [railway] line from Kishinyov, the Moldavian capital, to the nearby port of Odessa in the Ukraine was divided [between the two republics]. On the first day of the new agreement, a [Moldavian] train set out from Kishinyov, crossed the border into the newly independent Odessa administrative zone and disappeared. . . . It turned out that the train had not just disappeared. It had been captured. The moment it crossed into the Odessa railway zone, the [Ukrainian] railway workers had seen their chance. They commandeered the engine and set it to work on their line. Now they could not only fulfill their plan, but overfulfill it and win a handsome bonus. It was not the only train that disappeared.[5]

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The wild west still exists. It has only moved to the Ukraine and donned socialist clothing.

In October 1974, a commentary in *Komsomolskaya Pravda* dared to imply that the Soviet system is at fault for not meeting the basic needs of consumers. The government seems to understand that *nalevo* is necessary corruption. The importance of legalized private work illustrates this well.

The government allows every collective or state farmer a small plot of land to cultivate in his free time. It is interesting to compare data on this minimal, part-time, private farming to that of the *kalhozi,* or collective farms.

Although private plots make up only one per cent of farmed land, their produce makes up 26 per cent of the total value of the nation's farm output. They are roughly 40 times more efficient than collectives. According to the 1973 Soviet economic yearbook, in terms of value, private plots produced 62 per cent of the nation's potatoes, 32 per cent of other fruits and vegetables, 47 per cent of the eggs, and 34 per cent of the meat and milk.[6]

Obviously, the USSR would be unable to feed its people without the private sector. The Soviets need it, yet it is out of line with strict Soviet dogma. *Blat* and *nalevo* are the bastard children of the Soviet economy. They are publicly denied, but have flourished in the underground ever since their prohibition soon after the Revolution. And though still ideologically sidestepped, their economic benefits are becoming harder to ignore.

In June 1984, *Komsomolskaya Pravda* stated, "Our country values and supports personal farming for the general welfare, however, we cannot close our eyes to negative phenomena in the use of private plots—to the fact that this sector is sometimes transformed into a person's basic source of income, which leads to petty bourgeois mentality."

That was under Konstantin Chernenko, last in the line of Brezhnevian conservatives. Now, however, Gorbachev, a younger and more liberal leader, seems to see the necessity of limited private enterprises.

Recently, a report on McDonald's shown on Soviet television dared to suggest, "Maybe there is something we can learn from this." Several Pizza Hut restaurants are being constructed in Moscow and Leningrad. The Supreme Soviet, the USSR's national legislature, is currently experimenting on a small scale with a law that, much like China's new economic plan, would allow for "individual labor activity."[7] Individuals would be allowed to sell their services legally and also could band together in joint ventures such as small cafes or shops. Private hiring of subordinate employees would remain illegal, and excessive profits probably would be highly taxed, but, for the first time since Lenin's New Economic Policy ended in 1928, private industry would return to Russia.

Lenin's excuse was, "One step back to take two steps forward." Gorbachev seems to see that the "Revolution" has long since run out of steam, and, noting the Chinese communists' successes, looks to give it new life by adding capitalist incentives to socialist planning. But this is by no means the end of *blat*. As long as shortages of consumer goods exist, *blat* will continue to grease the economic machinery of Soviet and Eastern European society.

When my friends and I left the Soviet Union at a small border crossing near Hungary, I still had about 35 rubles (about 40 dollars) in my pocket. Our guide had told us that Soviet policy forbade the transfer of rubles out of the country. But I just couldn't bear giving them up. I stuffed them into a dirty sock and planted it in the middle of my duffel bag. If they wanted them that badly, they could have them. They didn't even stop our bus, and we drove past the rain-soaked sentries, on into Hungary. In retrospect, I'm not sure why I kept the rubles, risking a long and uncomfortable interrogation in a cold, wet room. They were basically worthless outside of the USSR and, as I had found, within as well. They were just paper. I guess I wanted to remember that. □

1. Hedrick Smith, *The Russians* (New York: Quadrangle/The New York Times Book Co., 1976), p. 89.
2. *Ibid.*, p. 88.
3. Jeff Trimble, "Earning a fast ruble; Pizza Hut's on the way as Soviets try free enterprise," *U.S. News and World Report*, November 24, 1986, p. 37.
4. Michael Binyon, *Life in Russia* (London: Hamish Hamilton, 1983), p. 255.
5. *Ibid.*, pp. 17-18.
6. Smith, p. 201.
7. Trimble, p. 36.

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The Great Depression

by Hans F. Sennholz

Although the Great Depression engulfed the world economy more than 50 years ago, it lives on as a nightmare for individuals old enough to remember and as a frightening specter in the textbooks of our youth. Some 13 million Americans were unemployed, "not wanted" in the production process. One worker out of every four was walking the streets in want and despair. Thousands of banks, hundreds of thousands of businesses, and millions of farmers fell into bankruptcy or ceased operations entirely. Nearly everyone suffered painful losses of wealth and income.

Many Americans are convinced that the Great Depression reflected the breakdown of an old economic order built on unhampered markets, unbridled competition, speculation, property rights, and the profit motive. According to them, the Great Depression proved the inevitability of a new order built on government intervention, political and bureaucratic control, human rights, and government welfare. Such persons, under the influence of Keynes, blame businessmen for precipitating depressions by their selfish refusal to spend enough money to maintain or improve the people's purchasing power. This is why they advocate vast governmental expenditures and deficit spending—resulting in an age of money inflation and credit expansion.

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Classical economists learned a different lesson. In their view, the Great Depression consisted of four consecutive depressions rolled into one. The causes of each phase differed, but the consequences were all the same: business stagnation and unemployment.

The Business Cycle

The first phase was a period of boom and bust, like the business cycles that had plagued the American economy in 1819-20, 1839-43, 1857-60, 1873-78, 1893-97, and 1920-21. In each case, government had generated a boom through easy money and credit, which was soon followed by the inevitable bust.

The spectacular crash of 1929 followed five years of reckless credit expansion by the Federal Reserve System under the Coolidge Administration. In 1924, after a sharp decline in business, the Reserve banks suddenly created some $500 million in new credit, which led to a bank credit expansion of over $4 billion in less than one year. While the immediate effects of this new powerful expansion of the nation's money and credit were seemingly beneficial, initiating a new economic boom and effacing the 1924 decline, the ultimate outcome was most disastrous. It was the beginning of a monetary policy that led to the stock market crash in 1929 and the following depression. In fact, the expansion of Federal Reserve credit in 1924 constituted what Benjamin Anderson in his great treatise on recent economic history (*Economics and the Public Welfare,* D. Van Nos-

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trand, 1949) called "the beginning of the New Deal."

The Federal Reserve credit expansion in 1924 also was designed to assist the Bank of England in its professed desire to maintain prewar exchange rates. The strong U.S. dollar and the weak British pound were to be readjusted to prewar conditions through a policy of inflation in the U.S. and deflation in Great Britain.

The Federal Reserve System launched a further burst of inflation in 1927, the result being that total currency outside banks plus demand and time deposits in the United States increased from $44.51 billion at the end of June, 1924, to $55.17 billion in 1929. The volume of farm and urban mortgages expanded from $16.8 billion in 1921 to $27.1 billion in 1929. Similar increases occurred in industrial, financial, and state and local government indebtedness. This expansion of money and credit was accompanied by rapidly rising real estate and stock prices. Prices for industrial securities, according to Standard & Poor's common stock index, rose from 59.4 in June of 1922 to 195.2 in September of 1929. Railroad stock climbed from 189.2 to 446.0, while public utilities rose from 82.0 to 375.1.

A Series of False Signals

The vast money and credit expansion by the Coolidge Administration made 1929 inevitable. Inflation and credit expansion always precipitate business maladjustments and malinvestments that must later be liquidated. The expansion artificially reduces and thus falsifies interest rates, and thereby misguides businessmen in their investment decisions. In the belief that declining rates indicate growing supplies of capital savings, they embark upon new production projects. The creation of money gives rise to an economic boom. It causes prices to rise, especially prices of capital goods used for business expansion. But these prices constitute business costs. They soar until business is no longer profitable, at which time the decline begins. In order to prolong the boom, the monetary authorities may continue to inject new money until finally frightened by the prospects of a runaway inflation. The boom that was built on the quicksand of inflation then comes to a sudden end.

For a revised version of this essay—along with a comparison with contemporary events in business and finance—read Dr. Sennholz's "The Great Depression: Will We Repeat It?" published this month by Libertarian Press, $3.50. This attractive 48-page pamphlet is also available from The Foundation for Economic Education, 30 South Broadway, Irvington-on-Hudson, New York 10533.

The ensuing recession is a period of repair and readjustment. Prices and costs adjust anew to consumer choices and preferences. And above all, interest rates readjust to reflect once more the actual supply of and demand for genuine savings. Poor business investments are abandoned or written down. Business costs, especially labor costs, are reduced through greater labor productivity and managerial efficiency, until business can once more be profitably conducted, capital investments earn interest, and the market economy function smoothly again.

After an abortive attempt at stabilization in the first half of 1928, the Federal Reserve System finally abandoned its easy money policy at the beginning of 1929. It sold government securities and thereby halted the bank credit expansion. It raised its discount rate to 6 per cent in August, 1929. Time-money rates rose to 8 per cent, commercial paper rates to 6 per cent, and call rates to the panic figures of 15 per cent and 20 per cent. The American economy was beginning to readjust. In June, 1929, business activity began to recede. Commodity prices began their retreat in July.

The security market reached its high on September 19 and then, under the pressure of early selling, slowly began to decline. For five more weeks the public nevertheless bought heavily on the way down. More than 100 million shares

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were traded at the New York Stock Exchange in September. Finally it dawned upon more and more stockholders that the trend had changed. Beginning with October 24, 1929, thousands stampeded to sell their holdings immediately and at any price. Avalanches of selling by the public swamped the ticker tape. Prices broke spectacularly.

Liquidation and Adjustment

The stock market break signaled the beginning of a readjustment long overdue. It should have been an orderly liquidation and adjustment followed by a normal revival. After all, the financial structure of business was very strong. Fixed costs were low as business had refunded a good many bond issues and had reduced debts to banks with the proceeds of the sale of stock. In the following months, most business earnings made a reasonable showing. Unemployment in 1930 averaged under 4 million, or 7.8 per cent of the labor force.

In modern terminology, the American economy of 1930 had fallen into a mild recession. In the absence of any new causes for depression, the following year should have brought recovery as in previous depressions. In 1921-22 the American economy recovered fully in less than a year. What, then, precipitated the abysmal collapse after 1929? What prevented the price and cost adjustments and thus led to the second phase of the Great Depression?

Disintegration of the World Economy

The Hoover Administration opposed any readjustment. Under the influence of "the new economics" of government planning, the President urged businessmen *not* to cut prices and reduce wages, but rather to increase capital outlay, wages, and other spending in order to maintain purchasing power. He embarked upon deficit spending and called upon municipalities to increase their borrowing for more public works. Through the Farm Board which Hoover had organized in the autumn of 1929, the federal government tried strenuously to uphold the prices of wheat, cotton, and other farm products. The GOP tradition was further invoked to curtail foreign imports.

The Hawley-Smoot Tariff Act of June, 1930, raised American tariffs to unprecedented levels, which practically closed our borders to foreign goods. According to most economic historians, this was the crowning folly of the whole period from 1920 to 1933 and the beginning of the real depression. "Once we raised our tariffs," wrote Benjamin Anderson, "an irresistible movement all over the world to raise tariffs and to erect other trade barriers, including quotas, began. Protectionism ran wild over the world. Markets were cut off. Trade lines were narrowed. Unemployment in the export industries all over the world grew with great rapidity. Farm prices in the United States dropped sharply through the whole of 1930, but the most rapid rate of decline came following the passage of the tariff bill." When President Hoover announced he would sign the bill into law, industrial stocks broke 20 points in one day. The stock market correctly anticipated the depression.

The protectionists have never learned that curtailment of imports inevitably hampers exports. Even if foreign countries do not immediately retaliate for trade restrictions injuring them, their foreign purchases are circumscribed by their ability to sell abroad. This is why the Hawley-Smoot Tariff Act which closed our borders to foreign products also closed foreign markets to our products. American exports fell from $5.5 billion in 1929 to $1.7 billion in 1932. American agriculture customarily had exported over 20 per cent of its wheat, 55 per cent of its cotton, 40 per cent of its tobacco and lard, and many other products. When international trade and commerce were disrupted, American farming collapsed. In fact, the rapidly growing trade restrictions, including tariffs, quotas, foreign exchange controls, and other devices were generating a world-wide depression.

Agricultural commodity prices, which had been well above the 1926 base of 100 before the crisis, dropped to a low of 47 in the summer of 1932. Such prices as $2.50 a hundredweight for hogs, $3.28 for beef cattle, and 32¢ a bushel for wheat plunged hundreds of thousands of farmers into bankruptcy. Farm mort-

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gages were foreclosed until various states passed moratoria laws, thus shifting the bankruptcy to countless creditors.

Rural Banks in Trouble

The main creditors of American farmers were, of course, the rural banks. When agriculture collapsed, the banks closed their doors. Some 2,000 banks with deposit liabilities of over $1.5 billion, suspended operations between August, 1931, and February, 1932. Those banks that remained open were forced to curtail their operations sharply. They liquidated customers' loans on securities, contracted real estate loans, pressed for the payment of old loans, and refused to make new ones. Finally, they dumped their most marketable bond holdings on an already depressed market. The panic that had engulfed American agriculture also gripped the banking system and its millions of customers.

The American banking crisis was aggravated by a series of events involving Europe. When the world economy began to disintegrate and economic nationalism ran rampant, European debtor countries were cast in precarious payment situations. Austria and Germany ceased to make foreign payments and froze large English and American credits; when England finally suspended gold payments in September, 1931, the crisis spread to the U.S. The fall in foreign bond values set off a collapse of the general bond market, which hit American banks at their weakest point—their investment portfolios.

Nineteen thirty-one was a tragic year. The whole nation, in fact, the whole world, fell into the cataclysm of despair and depression. American unemployment jumped to more than 8 million and continued to rise. The Hoover Administration, summarily rejecting the thought that it had caused the disaster, labored diligently to place the blame on American businessmen and speculators. President Hoover called together the nation's industrial leaders and pledged them to adopt his program to maintain wage rates and expand construction. He sent a telegram to all the governors, urging cooperative expansion of all public works programs. He expanded Federal public works and granted subsidies to ship construction. And for the benefit of the suffering farmers, a host of Federal agencies embarked upon price stabilization policies that generated ever larger crops and surpluses which in turn depressed product prices even further. Economic conditions went from bad to worse and unemployment in 1932 averaged 12.4 million.

In this dark hour of human want and suffering, the federal government struck a final blow. The Revenue Act of 1932 doubled the income tax, the sharpest increase in the Federal tax burden in American history. Exemptions were lowered and "earned income credit" was eliminated. Normal tax rates were raised from a range of 1½ to 5 per cent to a range of 4 to 8 per cent, surtax rates from 20 per cent to a maximum of 55 per cent. Corporation tax rates were boosted from 12 per cent to 13¾ and 14½ per cent. Estate taxes were raised. Gift taxes were imposed with rates from ¾ to 33½ per cent. A 1¢ gasoline tax was imposed, a 3 per cent automobile tax, a telegraph and telephone tax, a 2¢ check tax, and many other excise taxes. And finally, postal rates were increased substantially.

When state and local governments faced shrinking revenues, they, too, joined the federal government in imposing new levies. The rate schedules of existing taxes on income and business were increased and new taxes imposed on business income, property, sales, tobacco, liquor, and other products.

Murray Rothbard, in his authoritative work on *America's Great Depression* (Van Nostrand, 1963), estimates that the fiscal burden of Federal, state, and local governments nearly doubled during the period, rising from 16 per cent of net private product to 29 per cent. This blow, alone, would bring any economy to its knees, and shatters the silly contention that the Great Depression was a consequence of economic freedom.

The NRA and the AAA

One of the great attributes of the private-property market system is its inherent ability to overcome almost any obstacle. Through price and cost readjustment, managerial efficiency and labor productivity, new savings and investments, the market economy tends to regain its

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equilibrium and resume its service to consumers. It doubtless would have recovered in short order from the Hoover interventions had there been no further tampering.

However, when President Franklin Delano Roosevelt assumed the Presidency, he, too, fought the economy all the way. In his first 100 days, he swung hard at the profit order. Instead of clearing away the prosperity barriers erected by his predecessor, he built new ones of his own. He struck in every known way at the integrity of the U.S. dollar through quantitative increases and qualitative deterioration. He seized the people's gold holdings and subsequently devalued the dollar by 40 per cent.

With some third of industrial workers unemployed, President Roosevelt embarked upon sweeping industrial reorganization. He persuaded Congress to pass the National Industrial Recovery Act (NIRA), which set up the National Recovery Administration (NRA). Its purpose was to get business to regulate itself, ignoring the antitrust laws and developing fair codes of prices, wages, hours, and working conditions. The President's Re-employment Agreement called for a minimum wage of 40¢ an hour ($12 to $15 a week in smaller communities), a 35-hour work week for industrial workers and 40 hours for white-collar workers, and a ban on all youth labor.

This was a naïve attempt at "increasing purchasing power" by increasing payrolls. But, the immense increase in business costs through shorter hours and higher wage rates worked naturally as an *antirevival* measure. After passage of the Act, unemployment rose to nearly 13 million. The South, especially, suffered severely from the minimum wage provisions. The Act forced 500,000 Negroes out of work.

Nor did President Roosevelt ignore the disaster that had befallen American agriculture. He attacked the problem by passage of the Farm Relief and Inflation Act, popularly known as the First Agricultural Adjustment Act. The objective was to raise farm income by cutting the acreages planted or destroying the crops in the field, paying the farmers *not* to plant anything, and organizing marketing agreements to improve distribution. The program soon covered not only cotton, but also all basic cereal and meat production as well as principal cash crops. The expenses of the program were to be covered by a new "processing tax" levied on an already depressed industry.

NRA codes and AAA processing taxes came in July and August of 1933. Again, economic production, which had flurried briefly before the deadlines, sharply turned downward. The Federal Reserve business index dropped from 100 in July to 72 in November of 1933.

Pump-Priming Measures

When the economic planners saw their plans go wrong, they simply prescribed additional doses of Federal pump priming. In his January 1934 Budget Message, Mr. Roosevelt promised expenditures of $10 billion while revenues were at $3 billion. Yet, the economy failed to revive; the business index rose to 86 in May of 1934, and then turned down again to 71 by September. Furthermore, the spending program caused a panic in the bond market which cast new doubts on American money and banking.

Revenue legislation in 1933 sharply raised income tax rates in the higher brackets and imposed a 5 per cent withholding tax on corporate dividends. Tax rates were raised again in 1934. Federal estate taxes were brought to the highest levels in the world. In 1935, Federal estate and income taxes were raised once more, although the additional revenue yield was insignificant. The rates seemed clearly aimed at the redistribution of wealth.

According to Benjamin Anderson, "the impact of all these multitudinous measures—industrial, agricultural, financial, monetary and other—upon a bewildered industrial and financial community was extraordinarily heavy. We must add the effect of continuing disquieting utterances by the President. He had castigated the bankers in his inaugural speech. He had made a slurring comparison of British and American bankers in a speech in the summer of 1934. . . . That private enterprise could survive and rally in the midst of so great a disorder is an amazing demonstration of the vitality of private enterprise."

Then came relief from unexpected quarters. The "nine old men" of the Supreme Court, by unanimous decision, outlawed NRA in 1935 and AAA in 1936. The Court maintained that

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the Federal legislative power had been unconstitutionally delegated and states' rights violated.

These two decisions removed some fearful handicaps under which the economy was laboring. NRA, in particular, was a nightmare with continuously changing rules and regulations by a host of government bureaus. Above all, voiding of the act immediately reduced labor costs and raised productivity as it permitted labor markets to adjust. The death of AAA reduced the tax burden of agriculture and halted the shocking destruction of crops. Unemployment began to decline. In 1935 it dropped to 9.5 million, or 18.4 per cent of the labor force, and in 1936 to only 7.6 million, or 14.5 per cent.

A New Deal for Labor

The third phase of the Great Depression was thus drawing to a close. But there was little time to rejoice, for the scene was being set for another collapse in 1937 and a lingering depression that lasted until the day of Pearl Harbor. More than 10 million Americans were unemployed in 1938, and more than 9 million in 1939.

The relief granted by the Supreme Court was merely temporary. The Washington planners could not leave the economy alone; they had to win the support of organized labor, which was vital for re-election.

The Wagner Act of July 5, 1935, earned the lasting gratitude of labor. This law revolutionized American labor relations. It took labor disputes out of the courts of law and brought them under a newly created Federal agency, the National Labor Relations Board, which became prosecutor, judge, and jury, all in one. Labor union sympathizers on the Board further perverted the law that already afforded legal immunities and privileges to labor unions. The U.S. thereby abandoned a great achievement of Western civilization, equality under the law.

The Wagner Act, or National Labor Relations Act, was passed in reaction to the Supreme Court's voiding of NRA and its labor codes. It aimed at crushing all employer resistance to labor unions. Anything an employer might do in self-defense became an "unfair labor practice" punishable by the Board. The law not only obliged employers to deal and bargain with the unions designated as the employees' representatives, later Board decisions also made it unlawful to resist the demands of labor union leaders.

Following the election of 1936, the labor unions began to make ample use of their new powers. Through threats, boycotts, strikes, seizures of plants, and outright violence committed in legal sanctity, they forced millions of workers into membership. Consequently, labor productivity declined and wages were forced upward. Labor strife and disturbance ran wild. Ugly sitdown strikes idled hundreds of plants. In the ensuing months economic activity began to decline and unemployment again rose above the ten million mark.

But the Wagner Act was not the only source of crisis in 1937. President Roosevelt's shocking attempt at packing the Supreme Court, had it been successful, would have subordinated the Judiciary to the Executive. In the U.S. Congress the President's power was unchallenged. Heavy Democratic majorities in both houses, perplexed and frightened by the Great Depression, blindly followed their leader. But when the President strove to assume control over the Judiciary, the American nation rallied against him, and he lost his first political fight in the halls of Congress.

There was also his attempt at controlling the stock market through an ever-increasing number of regulations and investigations by the Securities and Exchange Commission. "Insider" trading was barred, high and inflexible margin requirements imposed and short selling restricted, mainly to prevent repetition of the 1929 stock market crash. Nevertheless the market fell nearly 50 per cent from August of 1937 to March of 1938. The American economy again underwent dreadful punishment.

Other Taxes and Controls

Yet other factors contributed to this new and fastest slump in U.S. history. The Undistributed Profits Tax of 1936 struck a heavy blow at profits retained for use in business. Not content with destroying the wealth of the rich

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through confiscatory income and estate taxation, the administration meant to force the distribution of corporate savings as dividends subject to the high income tax rates. Though the top rate finally imposed on undistributed profits was "only" 27 per cent, the new tax succeeded in diverting corporate savings from employment and production to dividend income.

Amidst the new stagnation and unemployment, the President and Congress adopted yet another dangerous piece of New Deal legislation: the Wages and Hours Act or Fair Labor Standards Act of 1938. The law raised minimum wages and reduced the work week in stages to 44, 42, and 40 hours. It provided for time-and-a-half pay for all work over 40 hours per week and regulated other labor conditions. Again, the federal government thus reduced labor productivity and increased labor costs—ample ground for further depression and unemployment.

Throughout this period, the federal government, through its monetary arm, the Federal Reserve System, endeavored to reinflate the economy. Monetary expansion from 1934 to 1941 reached astonishing proportions. The monetary gold of Europe sought refuge from the gathering clouds of political upheaval, boosting American bank reserves to unaccustomed levels. Reserve balances rose from $2.9 billion in January, 1934, to $14.4 billion in January of 1941. And with this growth of member bank reserves, interest rates declined to fantastically low levels. Commercial paper often yielded less than 1 per cent, bankers' acceptances from ⅛ per cent to ¼ per cent. Treasury bill rates fell to 1/10 of 1 percent and Treasury bonds to some 2 per cent. Call loans were pegged at 1 per cent and prime customers' loans at 1½ per cent. The money market was flooded and interest rates could hardly go lower.

Deep-Rooted Causes

The American economy simply could not recover from these successive onslaughts by first the Republican and then the Democratic administrations. Individual enterprise, the mainspring of unprecedented income and wealth, didn't have a chance.

The calamity of the Great Depression finally gave way to the holocaust of World War II. When more than 10 million able-bodied men had been drafted into the armed services, unemployment ceased to be an economic problem. And when the purchasing power of the dollar had been cut in half through vast budget deficits and currency inflation, American business managed to adjust to the oppressive costs of the Hoover-Roosevelt Deals. The radical inflation in fact reduced the real costs of labor and thus generated new employment in the postwar period.

Nothing would be more foolish than to single out the men who led us in those baleful years and condemn them for all the evil that befell us. The ultimate roots of the Great Depression were growing in the hearts and minds of the American people. It is true, they abhorred the painful symptoms of the great dilemma. But the large majority favored and voted for the very policies that made the disaster inevitable: inflation and credit expansion, protective tariffs, labor laws that raised wages and farm laws that raised prices, ever higher taxes on the rich and distribution of their wealth. The seeds for the Great Depression were sown by scholars and teachers during the 1920s and earlier when social and economic ideologies that were hostile toward our traditional order of private property and individual enterprise conquered our colleges and universities. The professors of earlier years were as guilty as the political leaders of the 1930s.

Social and economic decline is facilitated by moral decay. Surely, the Great Depression would be inconceivable without the growth of covetousness and envy of great personal wealth and income, the mounting desire for public assistance and favors. It would be inconceivable without an ominous decline of individual independence and self-reliance, and above all, the burning desire to be free from man's bondage and to be responsible to God alone.

Can it happen again? Inexorable economic law ascertains that it must happen again whenever we repeat the dreadful errors that generated the Great Depression. □

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The Poor Among Us

by Ruth Burke

Not long ago, I was living in an ancient trailer on some land I was buying in a community near the Colorado River in Arizona.

Although I had a steady job, the pay wasn't fantastic. So I was living in a 1945-model trailer, lit only by a light bulb at the end of a long cord. My water didn't run, I did—for when I wanted it I carried a container across a field. My plumbing wasn't indoors, and the necessary house, as they used to put it, was across the field.

Needless to say, I didn't have air conditioning during the scorching desert summers, although I finally got a fan. But I bore the heat by closing the trailer up in the daytime and opening all the doors and windows at night. Hardships never bother me much, for I learned how to cope during the Depression.

Anyway, I had the pride of knowing that my six acres were going to be my stronghold in hard times. The land had plenty of water, being near the river, and the town was near enough that I could walk to it. I could see all the stars at night, hear the call of coyotes, and the peace and quiet were such that it seemed I was miles from civilization.

One day a friend called me at work and said that a family had come to town broke and were camping in their vehicle beside the river. Since the other transients in the area seemed to be taking an undue interest in the young girls of the family, she wondered if I could let them camp at my place over the upcoming holiday weekend. She told me that they had already been to the St. Vincent de Paul to get a food voucher, and on the next day that the welfare office opened, they planned to go and try to get a check and food stamps.

"Fine," I told her and asked that they meet me outside my job that evening, so I could guide them to my place.

If I had expected the Joads, I was in for a surprise. For they weren't driving a flivver with household possessions piled high and a goat boxed in on the running board, but rather an expensive, late-model van.

Well, I reasoned that many folks without a penny to their name were somehow able to drive new cars. So I introduced myself to this family, which consisted of a man, a teen-aged boy, two girls, one perhaps fourteen and one younger, and a baby.

I explained that we would have to drive a short distance out of town and offered to pay for some gas for the van if they needed it. They said that they thought they had enough to get that far and back to the welfare office when it opened the following Tuesday. And then I mentioned that my land was the site of a former junk yard—and that the previous owner hadn't finished removing all the cars—but that they must not let that disturb them.

They followed me out there and I told them where to park. Then I showed them where the water faucet was and said that the privy was behind some bushes.

"What's a privy?" the older girl asked.

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I explained. "Gross!" she replied.

The man of the family explained that they had started from Florida with enough money, but on the way they had to pay for unexpected repairs on their van—but when their checks caught up with them they would be in good financial shape again.

We talked awhile and I pointed out my old trailer—which was on the other end of the property—hardly distinguishable from some of the junk, no doubt, to the casual observer. And then suddenly the older of the two girls spoke up and asked, "How can you live like this?"

For once I was speechless, but when I remembered that my old car and the trailer were paid for and that I didn't owe any debts except my property mortgage, I answered, "Very easily."

I retired to my trailer and the blanket of darkness swooped down on us and I went to bed—secure in my snug little world.

If I vaguely wondered how my guests were doing, I wasn't in doubt more than a few hours, for the sound of someone knocking at my door woke me up. I looked at the clock, which said it was 11:00 P.M., and went to open up.

It was the oldest girl again, the one who had questioned my lifestyle. And visibly agitated, she said, "I just came to tell you that we can't stand it out here any longer—and we're leaving." Then as she turned to go, she added, "but thanks anyway."

Soon there was the roar of a motor starting up and then I saw twin red pin points of light dimming and vanishing in the distance. And then I was alone with my thoughts, the wind, the coyotes, and the stars overhead.

For awhile I felt ashamed that I was too broke to help the poor (I may be broke, but I'm never poor, even if I don't have a single possession to my name) but then I wondered if the time had come when beggars *were* choosers. And I decided that maybe it had.

When I calmed down enough to think rationally, I decided that many of the current crop of

penniless wayfarers don't have the survival skills of the old Knights of the Road—and don't know that there is any other way to live than as a part of the post-World War II affluent society with all its assorted gadgetry.

For many years I've known that the so-called poor have many more worldly goods than I, and what is a poverty level for some isn't for me. In 1986 my income was 79 per cent under what the government says is the poverty line, but I wasn't particularly needy and had a few things that I consider luxuries (books, magazines, writing paper, stamps, etc.) so I guess the subjective view of one's status in life is quite different from an objective one.

While I made allowances that my unhappy guests were city people unused to the silence of the desert and country ways of doing things, I finally decided that the prevailing view of the down-and-outs is that people who give handouts to them better have something good to give, for no matter how needy, they don't want junk.

Oh yes, there's something more I'd better tell you. The following week, and for a few days after, I saw my visitors' van parked at the welfare office. I decided that it might not have been as easy for them to get welfare as they had thought. But later I met them in the store and they said that they had been placed in a trailer somewhere—presumably one that had running water and a toilet—where they wouldn't have to listen to coyote serenades in the stillness of the night. □

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Man at His Best

by Robin Lampson

The willingness of people to help others who are suddenly overwhelmed by a great emergency or disaster is one of the more pleasing characteristics of human beings.

The most amazing instance of this which I can remember occurred right after the great earthquake of April 18, 1906, and the terrible fire in San Francisco that followed. The story I tell here is something I witnessed myself, and I have never come across anything other than the merest generalities about it in books or magazine articles I have read about that holocaust—although the newspapers no doubt reported details of it at the time.

I was a youngster just two-and-a-half months past the age of six that April morning, and nearing the completion of the first grade of grammar school. I woke to find my small bed dancing around the room, with my father holding on to the footboard. I cried out, "What are you pushing my bed around for, Pa?" I didn't realize that he was holding on to my bed so as to stay on his feet during the earthquake!

This was not in San Francisco, but in the small town of Geyserville, in upper Sonoma County, 75 miles north of the metropolis. The temblor did a great deal of damage in that area also, razing many buildings in Santa Rosa and Healdsburg, and leaving hardly a chimney standing in our small town.

Before my father let go of my bed we heard the sound of bricks falling on the roof. "There go the chimneys!" Dad commented forlornly.

It wasn't long before we learned we had lost the brick chimneys of both our kitchen range and living-room stove, and that most of our windows were broken. In addition, my mother lost more than half of her dishes, and she was further saddened because quite a number of cans and glass jars of home-canned fruit and vegetables had been shaken off of shelves and ruined.

My father—the town blacksmith—had to set up a camp stove in the backyard so my mother could cook breakfast. Fortunately, his smithy was at the very north end of the small business section of Geyserville, and his shop and our home and barn, chicken-house, windmill and water tank were all on a four-or-five acre "lot" that was pretty much like a small farm. We had a couple of cows, a few pigs, 40 or 50 chickens, an acre or so of various grapes, a dozen or more different kinds of fruit trees, several varieties of berry vines, and a vegetable garden that made excellent use of every remaining square foot of available ground.

That April morning ushered in a clear, warm spring day as well as an earthquake for us—and the quake did not disturb the flow of food from our cows and chickens and garden. After breakfast, I hurried downtown with a couple of my older brothers to see what had happened to the dozen or so business places of the village.

Nearly all the front windows of the stores were shattered, and all the glass lay in splinters on the sidewalks. But the real thrill came when we reached the town's lone candy store and soda fountain. The owner, named Elmer Nordyke, stood in the doorway sadly surveying the wreckage.

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Inside, the candy showcases were all overturned, and candy was strewn all over the floor, and also out on the sidewalk from the display behind the now completely shattered plate-glass front window. "Help yourselves, kids," said Mr. Nordyke, smiling rather sadly. (I hardly need add that no second invitation was necessary.)

Since the daily newspapers immediately stopped coming through from San Francisco, and long distance telephone service was still in its infancy, the wildest of rumors began circulating. But freight and passenger trains were still running in both directions on the Northwestern Pacific Railroad and the telegraph lines were still open—though in those days in that area the telegraph offices were all in railway stations. But the news which the wires brought to us from Sausalito, across the bay from San Francisco, was only of catastrophe so often told that there is no need for me to repeat it here.

A Desperate Need

A day or so later word began coming through by telegraph that food was desperately needed for the hungry, homeless tens of thousands of quake and fire victims in San Francisco. Then one morning, the daily northbound freight train from Sausalito shunted an empty boxcar onto a siding at the Geyserville depot.

The local depot agent of the Northwestern Pacific lost no time in spreading the appeal which he had received by telegraph. The railroad was leaving one or more empty boxcars at each of its stations along the entire route—and appealed to the people of each community to fill these cars with any food they could spare for San Francisco. The railroad, of course, was contributing the transportation.

The word got around very fast, and the appeal was nothing less than electrifying. Every farmer who came into town heard about it—and took pains to inform his neighbors on the way back home, and neighbors were asked to inform their neighbors farther on. The rural mail carrier, with his horse and buggy, stopping at every roadside mailbox, was also highly effective in spreading the message.

The town or community of Geyserville, with about forty homes around the small business section, in 1906 couldn't have had a total population of more than 400 if one included all the farms within a radius of four or five miles. Yet, within a couple of hours, men, women and children began coming to that boxcar with baskets and packages and armloads of food.

They brought loaves of homemade bread, mason jars of home-canned fruits and vegetables, sacks of potatoes, bags of dry beans, rice and sugar, and jars of fresh milk and newly churned butter. As the day wore on, people from the town and nearby farms began bringing in cooked chickens and roasts of beef, veal, pork, and lamb.

This is all the more remarkable when you bear in mind that there was not only no radio or television in those days, but also the telephone and automobile had not yet arrived in our small community. There were a few—very few—bicycles around, but otherwise everyone traveled either by horse or on "shanks' mare." Yet the appeal kept on spreading fast—for neighbor told neighbor.

Ours was a large family, with nine children, and each year my mother "put up" several hundred quarts of tomatoes, green beans, peas, apricots, cherries, peaches, pears and berries—in one and two-quart mason jars or in tin cans sealed on top with wax. In addition that amazing woman filled scores of glasses and jars of all sizes and shapes with jellies and jams. (In addition to the fruits and vegetables which we grew on our place, my father received various other produce, such as potatoes and pumpkins, squash and melons, raisins and dried prunes and other fruits, also turkeys and sides of veal, pork, and lamb, in exchange for horse-shoeing and other blacksmith work for farmers.)

Now in April, 1906, my parents decided to split the remainder of our winter supply of "canned" fruits and vegetables with the hungry people of San Francisco. But what my parents gave was only typical of the donation of practically every household in the community. And the storekeepers of the town also contributed from their shelves and storerooms. In addition, volunteer workers came to the boxcar and helped to pack the food in boxes, cartons, and crates; and a couple of carpenters, working with boards and nails donated by the local lum-

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Refugees eating on Franklin Street, near Fulton Street, after the San Francisco earthquake, 1906.

THE BETTMANN ARCHIVE

beryard and hardware store, shored up the load inside the car so that the food would ride safely to Sausalito, where it would be ferried to San Francisco.

Before dark the first day the boxcar was nearly full, sealed by the station agent, and ready to roll. And that night the southbound freight train carried the car to its destination.

The next morning the northbound freight left another empty car on the siding—and the amazing spontaneous process of filling it began all over again. And from what I remember hearing at the time, the same sort of response was happening at all the other stations along the railroad.

The day of the earthquake my father immediately made temporary repairs to our kitchen chimney, using stove-pipe instead of brick, so that my mother could use our old-fashioned kitchen range. There was no "little old bakeshop" in the town, so housewives did all their own baking. That evening my mother did what many other housewives in the town were doing: she made up several large washpans full of fragrantly yeasty bread dough, which she "set to rise" overnight.

The next morning before dawn my father lit a good fire in the range, and soon my mother had two large bread pans, each with six large loaves, baking and filling the kitchen with their mouth-watering aroma. When these loaves came out of the oven, my mother laid them out to cool under clean white flour sacks made into dish towels—and immediately put another batch of 12 loaves into the oven.

That afternoon she wrapped each panful of six attached loaves in clean newspaper (wrapping paper was not plentiful in 1906) and tied it up with string from packages that had come from the stores. Then two of my older brothers, aged 8 and 10, and I felt quite proud when we were allowed to carry the packages down to the depot to be loaded into the boxcar.

(I see I have forgotten to mention that the town's small two-room schoolhouse—with two teachers for the 75 or 80 pupils in the eight

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grades—was also damaged that April Wednesday morning by the earthquake, and carpenters and glaziers were called in to make repairs. So classes did not resume until the following Monday, and this extra school holiday only added zest to the excitement of us youngsters who were watching the relief food go into the boxcars.)

By this time the food emergency in San Francisco was pretty well known to all the people of the Russian River Valley—as well as to most of the rest of the civilized world. Some of the San Francisco newspapers, which had many subscribers in the Sonoma County, were now being printed in Oakland and were coming through by way of Vallejo and Sonoma; and the Santa Rosa dailies were also bringing in reports of the extent of the holocaust.

So it was that the farmers and their wives, even from the most distant farms in that section of the valley, brought in their contributions—more sacks of potatoes and dried fruits, plus hundreds of quarts of "canned" fruits and vegetables. Dressed and roasted chickens were hauled in by the dozens. Pigs, calves, and lambs were slaughtered and dressed—and added to the store in the boxcar. Ed Cook, my father's close friend who ran Geyserville's butcher shop (we didn't call it a meat market in those days), donated a quarter of beef or a dressed hog each day.

This went on for many days, with a new boxcar arriving empty in the morning and going south filled again at night. Just how long this continued I do not recall exactly, but I believe it was more than a week, probably 10 or 12 days—until word came that large shipments, even whole trainloads, of donated relief food and supplies from other states clear to the East Coast were beginning to arrive in San Francisco. Please remember that I was only six years old when all of this happened—and it never occurred to me to jot down any of it until over 60 years later. In fact, I feel that time has, if anything, only blurred my memory of what a remarkable and wonderful phenomenon my childish eyes were permitted to witness!

None of the people of our small community were rich. Some of them owned their farms or homes, but most of them lived "lives of quiet desperation," and never knowing what it was like to be without worry over bills and debts, rent and mortgages. (Our family was one of the latter.) All these people had to work, and work hard and constantly, to earn a living—and expected to do so to the end of their days. Yet practically every family unhesitatingly shared what it had with the disaster victims of San Francisco.

From 1906 to the present time I have never heard this story told, nor come across anything about it in print. It is most likely that other railroads and also shipping lines carried out programs of gathering and transporting food and supplies for the hungry and homeless in San Francisco. Likewise, I doubt very much if any community in California, or in neighboring states too for that matter, failed to send help in some form—money, food, clothing, bedding, etc.

But I saw with my own eyes what happened in one small farming community, and I knew that something similarly wonderful was happening in many neighboring communities. And I now realize that when I was very, very young—too young to be aware of it at the time—I was fortunate enough to have a good look at *man at his best.* □

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Libertarian Sympathies: Heart and Mind

by Joseph S. Fulda

Two questions invariably asked of me by those unacquainted with libertarian thought and surprised at many of the arguments and observations I put forth are "Why are you so committed a libertarian?" and "What are some of the difficulties with the philosophy—where is it somewhat strained?"

This essay, then, is my attempt to answer these questions about the attractions and difficulties with the philosophy so many of us have embraced.

Libertarianism appeals to both heart and mind. For many of us, especially the young, libertarianism arises as a natural consequence of a free-spirited personality: yearning to enjoy life, with as few encumbrances as possible, and to answer to no one but ourselves and (for some of us) God.

For many of us, also, libertarianism arises from deep-seated philosophical convictions about the nature and dignity of man and the way the world works. These convictions are variations on three themes.

The first is the spiritual case for liberty: that men are naturally born with free will and that it is, therefore, both their right and their duty—their unique destiny—to use this God-given capacity to choose among alternatives, for good or for bad, for happiness or for unhappiness—provided, of course, that in so doing they in no way remove others' free will.

The second is the moral case for liberty: that the use of force, except in self-defense—individual or collective—is simply wrong. This understanding of the inviolable nature of the rights of man arises directly from a conception of his dignity.

The third is the empirical case for liberty: that a free society promises the greatest good of the greatest number, that freedom truly works. Unlike the spiritual and moral premises, which to many are self-evident, the way the marketplace works to our benefit is often subtle. It is, for example, not obvious that the benefits of productive advances are greatest for the poor,[1] that distribution-of-income figures do *not* show a permanent underclass in capitalist society,[2] that we benefit most from the liberty of *others* and in ways we can barely imagine,[3] that government programs are *necessarily* wasteful,[4] that the market is *self*-regulating if given the chance,[5] and that the beneficiaries of state action are so often visible and well-organized, while those who lose as a result of state action are either not visible or are so diffuse a group as to make it difficult and unprofitable to organize.[6]

Because of these and other subtleties, it is usually necessary for those who espouse the freedom philosophy to make a separate, empirical case against each existing or proposed government program or regulation. This can be not only exasperating, but also particularly difficult for functions government assumed long ago, because it is hard to know just how the market—coordinating the spontaneous responses of many millions of people—would today handle

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these functions. Thus a grounding in economic history, as well as in economic theory, is needed to provide much of the empirical case for private schools, privately owned streets, voluntary charity and relief, privately provided economic security, privately coined money, bank notes, and the like.

Nevertheless, given enough such examples, the individualist convinced of both the spiritual and moral case for liberty will accept the empirical case as well. In so doing, he will add to the claim that liberty is a virtue, the further claim that liberty is a blessing which promotes human happiness. These three philosophical themes taken together both support and are supported by the primal appeal of freedom that is basic to so much of our personalities.

There is a great danger, though, when the primal appeal of liberty is not accompanied by philosophical conviction. For then the temptation arises to use government to expand liberty, rather than to destroy it. Of course, the use of force cannot—by definition—expand liberty, but there are a great many with libertarian sympathies, perhaps including most Americans, but without a sufficient grounding in theory, who think that it can. We might call them social libertarians and their idea, oxymoronic as it is, socialized libertarianism.

To them, as to Lord Acton and philosopher-economist John Stuart Mill, liberty means freedom not just from coercion, but also from the opinions, customs, and traditions of the many. To gain such freedom from the valuations of others, a social libertarian may well be tempted to advocate state coercion not seeing, for the moment, that, as Hayek so beautifully exposits in *The Constitution of Liberty,* the empirical case for freedom holds true of the very opinions, customs, and traditions he feels (but is not coercively) bound by[7] and that, in any case, state action violates the spiritual and moral constraints on coercion he normally accepts.

This blind spot is particularly notable and noticeable in the case of invidious discrimination against members of a minority group. Even those, such as the American Civil Liberties Union, who normally make a very strong case for the freedoms of association (which include the freedom not to associate) and the right to privacy (which includes the right to scrutiny-free relationships) are tempted to make a major exception where invidious discrimination is concerned.[8] The philosophical libertarian, in contrast, distinguishes carefully between persecution and discrimination and while prohibiting the former with all the force of the law and the state, leaves the latter subject to moral opprobrium by the citizenry and to the powerful rectifying institutions of the marketplace.[9]

Social libertarians also might advocate that employers not be allowed to test employees for drugs or truthfulness and that landlords not be allowed to prohibit cohabitation, kids, pets, or washing machines. Both landlords and employers, they advocate, should be required to act neutrally to any attribute of tenants or employees, respectively, that is not relevant to tenancy and employment, respectively.

Arguments similar to those made about employers and landlords were made, and were almost totally successful, about the stewardship function of colleges and universities toward their students, and for such public accommodations as mass transit, restaurants, and the like.

In each of the above cases, although freedom of choice is clearly contracted, the choices available to the advocates of state action have equally clearly been substantially expanded, albeit at the expense of those whose freedom of choice has been contracted. This point is one which causes some anguish for the consistent proponent of liberty, for it is undoubtedly true that in many instances we are prevented from acting as we like or required to act in ways we do not like, even though no coercion is involved.

Yet both the employer's terms and the landlord's terms, as irrational, onerous, or even immoral as they may be, and as little as we wish to defend them, are tacitly accepted by the employee and the tenant in staying on at the job or in the apartment. What social libertarians would do, in essence, is replace the criterion of liberty with one of relevance and reasonableness. If there are not good and sufficient reasons for the conditions attached to the job or the tenancy, they advocate that it must not be allowed to stand.

Furthermore, social libertarians argue, if so-

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cialized libertarianism is rejected on the ground that continuance in a position is tacit acceptance, why not try the principle one step further and respond that the coercive powers of the state are also tacitly accepted by anyone continuing to live within its borders?

If there is a weakness with philosophical libertarianism, the social libertarian continues, it is the narrowness of the definition of coercion. In their view, the employer or the landlord does exercise a form of coercion and one which is best prevented by coercion from the state.[10]

These are serious objections which must be addressed and which present difficulties for anyone who has ever held a job or a tenancy with irrelevant conditions (who has not?) or who has been denied a job or a tenancy for irrelevant reasons.

The best response, though, is a simple question: "Irrelevant to whom?" Or, "Reasons not thought good and sufficient by whom?" Obviously not to the employer or the landlord whose liberty it is proposed to limit and whose property it is proposed to regulate. Furthermore, if the employer or landlord *is* wrong about the relevance of his conditions, as is sometimes surely the case, the market will exact penalties in higher salaries, lower rents, and the like.[11] Moreover, such an analysis does not even consider all the harmful side effects of the state's entering the picture, including the often-realized potential for the state to become the final arbiter of what constitutes good and sufficient reasons and what is or is not relevant to what, thus placing the state in effective control over housing and employment, an inevitable outcome that a social libertarian would surely deplore.[12]

Finally, the tacit acceptance of a property owner's conditions—whether the ownership is of a corporation or of rental housing—is not akin to the state's claim over its resident citizens. The state does have sovereignty—a monopoly on the retaliatory use of force within its borders—but it lacks, or should lack, ownership—a monopoly on the control and use of the property within its borders. Ownership arises by what Harvard philosopher Robert Nozick has called "the entitlement theory,"[13] which dates back to John Locke.[14] Sovereignty does not properly confer ownership, and in those polities where it *is* taken to include ownership, there is and can be no liberty.[15] And that is a tragedy which should convince the proponent of socialized libertarianism to acquire a taste for philosophical libertarianism and, despite the temptation, not to compromise so sacred a principle as liberty for an expanded notion of freedom that must diminish the very liberty in whose name it is promoted. □

1. See, for example, Joseph Fulda, "Productive Advances: Who Benefits Most?" in *The Freeman* 37(July 1987): 251.
2. See, for example, George Gilder, "The Economy of Frustration," *Wealth and Poverty* (New York: Basic Books, 1981), pp. 9-20.
3. See, for example, Friedrich A. Hayek, "Freedom as Opportunity for the Unknown Few," *The Constitution of Liberty* (South Bend, Indiana: Gateway Editions, 1972), Chapter 2, section 5, pp. 30-32.
4. See, for example, Milton Friedman and Rose Friedman, *Free to Choose* (New York: Harcourt Brace Jovanovich, 1980), pp. 115-119.
5. See, for example, Joseph Fulda, "The Market and Scarce Resources" in *The Freeman* 34(August 1984): 497; Joseph Fulda, "Product Information on the Market" in *The Freeman* 36(January 1986): 29-33.
6. The classical example here is the tariff, although the principle holds true for virtually all government interventions.
7. Friedrich A. Hayek, "Custom and Tradition," *The Constitution of Liberty* (South Bend, Indiana: Gateway Editions, 1972), Chapter 4, esp. section 5, pp. 61-62.
8. For a clear statement of this, see George F. Will, *Statecraft as Soulcraft* (New York: Simon and Schuster, 1983), pp. 86-87.
9. See, for example, Milton Friedman, "Capitalism and Discrimination," *Capitalism and Freedom* (Chicago: The University of Chicago Press, 1962), pp. 108-118.
10. Friedrich A. Hayek deals with this stubborn issue head-on in "Coercion and the State," *The Constitution of Liberty* (South Bend, Indiana: Gateway Editions, 1972), Chapter 9, pp. 133-147. Space considerations prevent our recapitulating Hayek's discussion; nevertheless, his insight is essential for the philosophical libertarian concerned with the essential principles of liberty, which, with Hayek, we take as "the absence of coercion."
11. See note 9.
12. As an example of this usurpation, the state now regularly decides whether, and to what degree, gender is a relevant criterion in social and economic activity.
13. Robert Nozick, "The Entitlement Theory," *Anarchy, State, and Utopia* (New York: Basic Books, 1974), pp. 150-153.
14. John Locke, "Of Property," *Two Treatises of Government* (Cambridge: Cambridge University Press, 1967), II:5:25-51.
15. See, for example, Joseph Fulda, "Liberty and Property," in *The Freeman* 37(May 1987): 175-178.

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The Minimum Wage—Good Intentions, Bad Results

by Roger Koopman

Ideas have consequences, Richard Weaver once wrote. They pace the course of human history—both good ideas and bad. And while intentions may be honorable, the passing of time has proven that, in the long term, you can't get good results from bad ideas.

The minimum wage is a classic example of a good intention and a bad idea. The idea behind minimum wage legislation is that government, by simple decree, can increase the earning power of all marginal workers. Implicit in this idea is the notion that employment is an exploitive relationship and that business owners will never voluntarily raise the wages of their workers. Businesses, we are told, must be coerced into paying workers what they deserve, and only politicians know what this is.

Not only does this line of thinking run contrary to the most basic economic principles of a free society, but it is also patently illogical. If government could raise the real wages of millions of Americans by merely passing a law announcing that fact, then why stop at $3.35 per hour, or $4.65, or even $10? Isn't $500 per hour more compassionate than $50? Absurd, you say, and I would agree. But the "logic" is perfectly consistent with the *idea* of a minimum wage, once you have accepted the premise that political decrees can raise wages.

What does make wages rise? It is most certainly *not* government edicts that simply rearrange and redistribute existing wealth. Wages rise in response to the creation of new wealth through greater productivity. The more that a society produces per capita, the more there is to distribute through the marketplace in the form of higher wages, better benefits, and lower prices.

The "bigger economic pie" concept is not complicated in the least, and yet it is a principle that seems to elude us time and again in matters of public policy. We know instinctively that government cannot create or produce anything. It regulates, confiscates, and consumes, all at the expense of the private economy. And yet we still believe that government can wave its magic wand with laws like the minimum wage, and we all will be better off.

Politicians engage in this deception to buy political favor from special interest groups. We keep falling for these political deceptions because our focus is on short-term personal gains rather than on the long-term consequences to the entire nation. We see the apparent benefit of having our own wages increased. But we don't consider the nameless victims of the minimum wage hike who will lose their jobs because the government has priced them out of the labor market. (It is precisely because minimum wage laws eliminate low-skilled workers from competing in the job market that organized labor lobbies Congress for massive minimum wage hikes.)

Commenting on the minimum wage, economist Henry Hazlitt put it succinctly:

> You cannot make a man worth a given amount by making it illegal for anyone to offer him less. You merely deprive him of the right to earn the amount that his abilities and situation would permit him to earn, while you deprive the community even of the moderate services that he is capable of rendering. In brief, for a low wage you substitute unemployment. You do harm all around, with no comparable compensation.[1]

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The net loss to society that results from this sweeping act of "wrongful discharge" is staggering. Those losses include: (1) The loss of employment to the individual himself, (2) the shrinking of the economic pie by the loss of his productive contribution, (3) the financial loss to society in supporting him in his idleness (unemployment compensation, welfare, etc.), (4) the financial loss in funding useless job training programs and other government efforts to get him re-employed, and (5) the net loss to society in having consumer prices driven up to cover the higher labor costs, and the loss of market share to foreign competition that may occur.

The cruel irony of the minimum wage is that it harms most the very segments of our society that it is intended to help—the unskilled poor and the inexperienced young. The evidence to support this is overwhelming, and it is the black community that is the hardest hit. In the 1950s, black teenage unemployment was roughly that of white teens. Following years of steady increases in both the level and coverage of the Federal minimum wage, over 40 per cent of the nation's black teenagers are now unemployed.

Just look at all the jobs that have been abolished by the minimum wage—good and worthwhile jobs for those who are taking their first step on the economic ladder. Movie ushers, gas station attendants, caddies, fruit pickers, dishwashers, fast food help, and a wide variety of other entry-level job opportunities have been either cut back or eliminated because the minimum wage has rendered them unaffordable. How tragic this is, when you consider the true value of these low-level jobs to young and unskilled workers.

Reflecting on his early years in a Philadelphia slum, black economist Walter Williams observed:

> None of these jobs paid much, but then I wasn't worth much. But the real value of early work experiences is much more important than the little change a kid can earn. You learn how to keep a job. You learn how to be prompt, respect and obey superiors, and develop good work habits and attitudes that can pay off in the future. Additionally, there is the self-respect and pride that comes from being financially semi-independent.[2]

If a young person is willing to wash cars for $2.50 an hour to gain work experience and self-esteem, is it the right of Congress to tell him he can't do it? Is it, in fact, the right of any politician to make these kinds of economic choices for a free people?

Commenting again on the minimum wage, Williams makes this critical observation:

> It is important to note that most people acquire work skills by working at "subnormal wages" which amounts to the same thing as paying to learn. For example, inexperienced doctors (interns), during their training, work at wages which are a tiny fraction of that of trained doctors. College students forego considerable amounts of money in the form of tuition and foregone income so that they may develop marketable skills. It is ironic, if not tragic, that low skilled youths from poor families are denied an opportunity to get a start in life. This is exactly what happens when a high minimum wage forbids low skilled workers to pay for job training in the form of a lower beginning wage.[3]

In a free society, people must have the right to offer their services in the marketplace for whatever price they choose, whether they are workers serving employers or businesses serving consumers. It is by this process that productivity, wage rates, and prosperity are maximized. Government has no more business objecting to a low wage rate for a menial job than it has objecting to a business that offers its services or products for a low price. Government intervention in these matters distorts economic decision-making, misallocates scarce resources, and destroys personal liberty.

If we are to remain a free people, we need to start trusting freedom, and jealously guard our right to make our own choices about our own lives. Repealing the minimum wage law would be an excellent place to start. □

1. Heny Hazlitt, *Economics in One Lesson* (New York: Arlington House Publishers, 1979), p. 135.
2. Walter Williams, "Wage Laws Keep Teens Jobless," *Colorado Springs Gazette Telegraph*, May 16, 1986 (syndicated column).
3. Walter Williams, "Government Sanctioned Restraints that Reduce Economic Opportunities for Minorities," *Policy Review*, No. 2 (1977), p. 11. (Quoted in *Poverty and Wealth: The Christian Debate Over Capitalism*, by Ronald H. Nash, [Westchester, Illinois: Crossway Books, 1986], p. 122.)

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The Farm Credit Crisis

by E. C. Pasour, Jr.

Farm credit problems are front page news. In early 1987, 104,000 commercial farm operators (17 per cent of the total) with $28.4 billion of debt were considered to be "under financial stress" so that lenders could lose $6.3 billion on these loans.[1] However, the amount of financial stress in agriculture varied considerably from region to region, being greatest in the Northern Plains, Lake States, and Corn Belt.

The regional variation in problems of farm borrowers is important to farm lending agencies, also under financial stress. The government-sponsored Farm Credit System (FCS) has lost some $4.8 billion since 1985 through mortgage and loan defaults—more than any other financial institution in U.S. history. Congress responded and in late 1987 a multi-billion dollar package of Federal assistance to help bail out the FCS was passed.

The Farmers Home Administration (FmHA) is the primary farm lending agency of the U.S. Department of Agriculture (USDA) with a historical mission of providing credit to high-risk farmers. Thus, the high degree of financial stress by FmHA borrowers in the mid-1980s should not be surprising. A 1986 GAO study found that more than half the FmHA borrowers were either technically insolvent or had extreme financial problems.[2]

It is not only farmers and government credit agencies that are encountering financial problems in farm credit markets. Many of the commercial banks that have failed in the 1980s have been "agricultural banks."[3] Indeed, the closure rate of agricultural banks has been significantly higher than that for nonagricultural banks.[4]

The purpose of this paper is to show how government intervention has resulted in two kinds of problems related to agricultural credit. First, it is shown how subsidized credit has contributed to the current plight of farmers. Second, the relationship of government banking regulations to farm bank lending problems is stressed. The conclusions reached are that farm credit woes are inherent in "easy credit" policies by governmental credit agencies and in the current system of banking restrictions that reduce portfolio diversification and increase risk.

Easy Credit in Agriculture

Federally subsidized farm credit programs have increased from a marginal source of farm financing for a few hardship cases to a major source of farm credit during the past fifty years.[5] Indeed, about half of the farm debt was held by the FCS and the FmHA in 1987.[6] This figure actually understates the governmental influence on farm credit because the taxpayer-financed FmHA supports agricultural loans by private lenders. For example, a 1984 debt deferral and adjustment program permitted the FmHA to guarantee problem farm loans held by a commercial bank, provided the lender reduced the principal or the interest rate charged by specified amounts.

Easy credit policies in agriculture lead to information problems, incentive problems, and a number of indirect and unintended effects.

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Information Problems

In a market system, interest rates and the amount of credit used are determined by market forces. In the absence of a market test, there is no reliable method to determine how low interest rates *should* be or how credit should be allocated. Subsidized credit, in effect, is an income redistribution program. The problem of determining a "fair" interest rate is the same as determining "just prices" generally and is one with which philosophers have struggled for centuries. Economic theory cannot be used to justify credit programs that benefit some farmers at the expense of other farmers and taxpayers—any more than it can be used to justify other income redistribution programs. The conclusion is that any governmentally imposed reduction in interest rates or increase of credit to agriculture is purely arbitrary.

Implementation Problems

Implementation problems arise in subsidized credit programs as they do in all situations in which resources are allocated through the polit-

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ical process. The FmHA, for example, was designed to be "lender of last resort," lending to borrowers unable to obtain credit from private credit agencies. In the case of FmHA's so-called limited resource loans, credit is extended when farmers "need a lower interest rate to have a reasonable chance of success."[7] However, when credit is arbitrarily increased to high-risk farmers, too many resources remain in agriculture.

There is also a moral hazard problem in all cases where the FmHA acts as a "lender of last resort." That is, an individual's behavior is affected when he is protected from the consequences of his actions. If subsidized credit is available to a farmer who either cannot obtain credit elsewhere or who needs a lower interest rate to succeed, the farmer is less likely to change his behavior so as to qualify for credit from commercial sources and more likely to continue to need lower rates.

Public choice theory—the application of economic principles to the political process—holds that goods and services are likely to be over-produced when provided through the political process. As the original purpose for a government program is achieved, politicians and decision makers in a government agency have incentives to broaden the scope of the agency's activities to prevent funding decreases.

The theory of bureaucratic productivity appears to be consistent with actions of the FmHA. The mandate of the FmHA has been broadened considerably over time to include loans for rural housing, community facilities, and business and industry programs, so today FmHA credit is available in rural areas for almost any conceivable purpose.[8] By 1982, only about half of all FmHA loans and grants were for farm programs.[9]

The FmHA provides a good example of how subsidized credit is influenced by political considerations. A tightening in FmHA rules, especially foreclosure, is politically sensitive. Both Secretary Bergland in the Carter Administration and Secretary Block in the Reagan Administration imposed a moratorium on farm foreclosures. Yet, without a firm foreclosure policy, goverment lending agencies are likely to get dragged into economic ventures that are progressively more hopeless. In contrast, when credit is available only from private lenders, who expect to profit from lending, there is much less likelihood of overexpansion of landholding or capital facilities in farming.

Indirect Effects

Subsidized credit affects the profitability of production and influences which producers remain in production. When allocated on the basis of its opportunity cost, credit generally is used by those producers meeting the profit test—those who best accommodate consumer demand. On the other hand, some less productive producers are kept in production when credit is subsidized, resulting in higher prices for land and other specialized resources, increased output, and lower product prices. Thus, farmers *not* receiving subsidized credit are harmed, since this results in higher costs and lower product prices.

The market process by which competition weeds out less productive producers and rewards the more productive is altered when subsidized credit is extended to those who are failing and cannot obtain credit elsewhere. Subsidized credit hampers resource adjustments and perpetuates low income problems in agriculture. One economist explains this paradox in which government assistance to agriculture benefits the less productive at the expense of the more productive, thereby reducing overall productivity, as follows:

> Financial assistance provided through the subsidies to the least efficient farmers leads to lower farm commodity prices and higher cost of farm resources, especially land, and reduced farm incomes. This tends to place the next group of farmers on the efficiency scale in the failure class. This process of replacing marginal farmers with otherwise submarginal ones results in a gradual reduction in the overall efficiency level of lower income farm groups.[10]

Easy credit also has affected production methods and the structure of farming. It has led to the substitution of machinery and other capital inputs for labor in agriculture, resulting in more highly mechanized farms. Lower interest

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rates also have encouraged farmers to buy more land. In view of widespread public concerns about farm size and capital requirements in commercial agriculture, it is ironic that government credit programs have contributed to the trends toward larger and more highly mechanized farms. It is also ironic that government has subsidized credit, thereby increasing output of farm products while, at the same time, attempting to reduce farm output through various other agricultural programs.

The effect of easy credit policies during the agricultural boom of the late 1970s on farm woes of the 1980s warrants a special note. Cheap credit creates an incentive to expand the size of farm operations through borrowing. And "too much" credit is more likely to be extended when lenders do not bear the full consequences of their actions. In the late 1970s, a period of inflation and favorable product prices, farmers borrowed heavily to invest in land, machinery, and other capital facilities. In retrospect, many highly-leveraged farmers borrowed too much. And they would not have borrowed so much if they had had to pay credit rates that were not subsidized, implicitly or explicitly, by the FCS and the FmHA.

As long as farm land prices were rising rapidly, as during most of the period from World War II to 1981, farms generally could be sold for enough to liquidate the debt when high-risk and other farm borrowers went out of business. With the decline in farm real estate values since 1981, however, losses by FmHA and FCS borrowers have been at a high rate. Hence, the evidence suggests that easy credit programs, especially those of the FmHA have "prolonged the agony of many farmers who should have transferred to nonfarm occupations at the time the FmHA loans were made."[11] Thus, there can be little doubt that the easy government credit policies of the 1970s contributed to the financial distress and farm bankruptcies of the 1980s.[12]

Finally, the cost of subsidized credit in agriculture ultimately is borne by the public. The federal government can finance its programs by raising taxes, deficit spending, or through new money creation. In reality, all these financing methods are likely to be used, resulting in higher interest rates, higher taxes, and inflation.[13] To maintain political support for subsidized credit, it is important that the costs be widely dispersed and not easily determined, while the benefits be easily seen and heavily concentrated—a phenomenon characteristic of many governmental programs that redistribute income.

Government-Assisted versus Private Credit in Agriculture

The objective of Federal credit agencies is quite different from that of profit-seeking private credit institutions. The purpose of the former, as stressed above, is to offer terms and conditions to selected borrowers that are more favorable than those available from private lenders. When compared with fully private loans, government-assisted credit may include lower interest rates or loan guarantees, less stringent credit risk thresholds in making credit available, or more generous repayment schedules.

Federally sponsored and financed agricultural credit programs have been under a great deal of financial pressure because their loans are specifically for agriculture, which is experiencing the greatest amount of financial turmoil since the 1930s. As suggested above, many commercial banks with high percentages of agricultural loans in their portfolios have also been in trouble during the 1980s. There is no way to diversify risks under current institutional arrangements when credit institutions deal heavily with one sector of the economy, whether the credit institutions be public or private. This is explained in the following section.

A problem is likely to arise when a credit institution in a predominantly agricultural location is not able to diversify its risks outside its geographic area and outside of agriculture. This inability to diversify risks is inherent in the FCS and FmHA. It is also a problem for commercial banks located in predominantly agricultural areas, such as those in parts of the Corn Belt, which cannot diversify their risks because of government restrictions on branch banking. Branching within states is governed by state laws, and only about half the states allow unlimited branching within their borders.[14]

A recent study of agricultural bank lending practices by the Federal Reserve Bank of

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Dallas found that branch-banking regulations have increased the probability of bank closure. One of the advantages of branching is increased diversification. Greater diversification means less risk and, consequently, a lower probability of banks' closing. In states with a broad mixture of industrial, commercial, and agricultural businesses, but with geographical concentration of agriculture, statewide branching can reduce significantly the risk of bank loan portfolios.[15]

The significance of portfolio diversification through branch banking in states with a great deal of diversity is illustrated by the banking situation in California (which allows statewide branching). Although California is the most important agricultural state, the state is so diverse that less than 5 per cent of all bank loans are to farmers and ranchers. Consequently, agricultural lenders there have fared much better than agricultural banks generally. Despite the importance of agriculture, California accounted for only one of the 68 agricultural bank failures in 1985.[16]

Statewide branch banking would have much less effect on portfolio diversification in states heavily concentrated in agriculture (or in any other line of commerce). In Nebraska, for example, a restricted branching state, loan portfolios are heavily loaded with agricultural loans. In 1984, 38 per cent of the loans were to farmers "and probably half again as much was to farm-related businesses."[17] At the end of 1984, there were 413 agricultural banks in Nebraska—19 have since closed.[18] In situations in which agriculture is the dominant activity and there is little opportunity for diversification, statewide branching would have relatively little effect in reducing lending risk.

Interstate Banking

Restrictions on banking make farm lending more risky. Partly as a result of geographical restrictions on banking, two-thirds of all bank failures in 1986 occurred in the Kansas City and Dallas Federal Reserve Districts, home to many poorly diversified farm and energy banks.[19]

In states in which there is a heavy concentration in agricultural production, or more generally in a few lines of commerce, geographical restrictions on banking significantly reduce portfolio diversification. Consequently, banks operating across state lines are able to diversify their risks much more effectively than banks restricted to a given geographic area. Although bank holding companies have engaged in a modest amount of interstate banking in recent years, Federal laws such as the McFadden Act and the Bank Holding Company Act limit full realization of the benefits of interstate banking.[20]

A bank that makes loans in different regions does not have its fate tied to the economy of one region. Specifically, under a system of interstate banks, a bank in a farming region would not have all its loans dependent upon the farm economy. Thus, it is not surprising that Federal and state restrictions on branching appear to have played an important role in recent woes of agricultural banks.

Restrictions on banking, as they affect agricultural credit, illustrate the point made by Ludwig von Mises that government intervention creates pressures for further intervention. Government restrictions on bank branching within and between states make it much more difficult for banks in agricultural regions to diversify their portfolios—hence, the government-created "need" for government-operated and government-sponsored credit institutions.

Restrictions on competition in banking are similar in one respect to governmental restrictions on competition in agriculture. In each case, the restrictions represent successful attempts by politically powerful groups to achieve wealth transfers through the political process. Many banks oppose nationwide banking, just as many farmers oppose free markets, because it would subject them to increased competition.[21] In neither farming nor banking, however, is there any persuasive evidence that current restrictions are beneficial to the public at large.

Conclusion and Implications

Government intervention in credit markets has been harmful in a number of ways. Easy credit has increased the amount of credit used in agriculture—especially by high-risk borrowers. Hence, it contributed to the increased

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prices of farm real estate and the increased numbers of highly leveraged farmers of the 1970s—and, consequently, to the financial and farm bankruptcies of the 1980s.

Subsidized credit has enabled many farmers who otherwise would have shifted out of agriculture to continue farming. And the resulting higher cost of land and other farm resources, increase in output, and decrease in commodity prices have reduced incomes of farmers not receiving the benefit. Economic logic supports the conclusion of Clifton Luttrell, former agricultural economist with the Federal Reserve Bank of St. Louis: "Instead of alleviating the problem of poverty in agriculture, as often alleged, such credit perpetuates the problem."[22] From a nonfarmer and taxpayer point of view, the increased flow of credit to agriculture means some combination of higher interest rates, higher taxes, and inflation.

Subsidized credit as a public policy poses the same problems as other kinds of intervention affecting market prices. The market process allocates credit on the basis of expected productivity and profits. In the absence of the profit and loss benchmark, there is no objective basis for determining how much credit *should be* used in agriculture. Thus, it is impossible to determine how effectively credit is being used in government credit programs. Moreover, the moral hazard problem is endemic in easy credit programs where borrowers must demonstrate that they lack other sources of credit.

A number of arguments have been used to justify cheap credit in agriculture. A recent analysis of the most widely used arguments concluded that the arguments were either unsound, counter to economic logic, or not supported by the evidence.[23]

Government intervention affecting the abilities of agricultural credit institutions to diversify portfolios also is harmful. Problems arise when lending institutions deal only with one sector of the economy—whether the credit agencies are public or private. Government restrictions on nationwide banking reduce diversification in bank loan portfolios, thereby increasing risk and the likelihood of bank failure. Branch banking regulations, by making lending in agriculture more risky, also increase pressures for easy credit programs through government credit institutions.

The analysis suggests three main points. First, cheap credit has hampered resource adjustments and contributed to current financial stress in U.S. agriculture. Second, government restrictions that prevent nationwide banking have increased risks of banks specializing in farm loans. Third, government intervention affecting farm credit and banking has had unforeseen and unintended consequences. In this respect government programs affecting agricultural credit markets are no different from government programs generally. □

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13. Clifton B. Luttrell, *op cit.*, pp. 124-126.
14. Hilary H. Smith *op cit.*, p. 32.
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16. Lindley H. Clark, Jr., "Interstate Banks Could Ease Farm Credit Woes," *The Wall Street Journal*, January 20, 1987, p. 35.
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The Morality of Freedom

by Robert A. Sirico

Lenin is reported to have once said that ideas are more fatal than guns. His revolution proved him right. Although Lenin's observation is overly negative (ideas needn't be fatal; they can, after all, be life engendering) it is correct to say that ideas have consequences, and that values, too, have consequences, for in the last analysis, there is a relationship between what we think and what we value. Ideas form the basis for people's actions, whether good or ill, whether explicit or implicit, and values result in various forms of human relationships and societies.

This essay is hardly meant to offer a thorough philosophical grounding for the moral basis of a free human community. In the light of space limitations I would be content merely to draw some useful distinctions, raise some infrequently asked questions, and test some dearly held axioms. I may provoke some questions and perhaps some disagreements, and this I welcome.

To probe this topic effectively, I have divided this essay into two sections. The first deals with clarifying some concepts and phrases which I believe have become blurred in common parlance. In the second section I hope to indicate some of the theoretical foundations of why it is that people can be said to possess rights, what these are, and what the necessary preconditions are for a truly humane society.

My final prenote is to observe that while the ideas that I present are drawn from the Judeo-Christian tradition, their application and significance go well beyond that tradition. My argument may be accepted by all people who are willing to banish the use of coercion and fraud to achieve social or political goals, regardless of their particular faith or lack of it.

It has been said that the mark of the mature mind is its ability to make distinctions, and it may be that as people become more and more acquainted with the intricacies of various aspects of reality, they begin to see various shades of meaning and are more able to distinguish among things that might have otherwise appeared to be indistinct. At least this is the case with the Eskimos who, I am told, have thirty different words for snow.

When we look, then, to human arrangements, it is imperative that we have a clear idea about what it is to which we are referring.

One hears a great deal of talk today about "rights." My philosophy professor at USC, Dr. John Hospers, used to say that there has been a "rights inflation." Yet, for all the talk about rights, what is oddly absent is a clear understanding of what rights are.

Rights are those claims which the individual has against others. In order for them to be unalienable, as the Bill of Rights proclaims them to be, rights must be seen as existing prior to and independent of any legal or institutional rules. Laws and institutions, by this understanding, may obfuscate, violate, or even protect an individual's rights, but they can neither grant nor remove true human rights. Rights, in order to be true claims which are unalienable and fundamental, must exist independent of the caprice of those who have coercive power. Additionally, in order for rights to be all that we have just said, they must derive from the nature of the case, which is to say that the human person must possess rights by virtue of his or her very nature.

I will elaborate on this in the second section of this study. For the present it is only necessary to understand the distinction between rights as just claims and as favors or privileges. A favor cannot be claimed. The nature of a favor or a privilege is that it is granted at the pleasure of the grantor. A favor may be withdrawn by the grantor when the one to whom it

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was granted falls out of favor. This not the case with rights.

Another basic distinction I wish to draw is that which exists between a community or society and a government or political order. This is to say that a society may exist with or without a particular political arrangement. Perhaps this is made more clear by seeing how Philippine society continued to exist despite the deposition of the Marcos political regime. The political order or government is that entity which maintains a monopoly of force in a given geographical area.

A community, on the other hand, is distinct in that its members hold certain values, *mores*, customs, and other such things in common, but is not essentially marked by its coercive capacity. Thus we can speak of "the Jewish community of Rome," for instance.

Communality vs. Collectivity

For the purposes of this treatment, and in the interest of precision, I would like to draw a distinction between a commune and a collective, again using coercive capacity as the dividing line. We would then be able to speak of people who enjoy a life in common, sharing values, homes, philosophy, and even wealth, without thinking of them as collectivists. In the former instance people come together freely, whereas in the latter they are forced into a common life.

While this distinction is not mandated by the language, I think it is permitted, and for the purpose of this discussion, desirable for clarity.

Similarly under this heading I would like to include a distinction between cooperation and conformity, again where the former involves choice but the latter is enforced.

Aristotle teaches us that justice is treatment in accord with desert. If I hire a man to mow my lawn for X amount of dollars, it is not charity, but justice that I pay him the amount agreed upon. Should I choose to add on to this just amount an additional gratuity—it is just that, a gratuity, an act of favor or charity on my part, but not something that is demanded by justice.

All these distinctions will aid us in understanding the theoretical foundations of a free society.

The Foundations of Freedom

A. Freedom: A Necessary Precondition for Morality and Virtue

Before we can speak intelligently about morality and virtue, it is necessary to speak about liberty and volition. The simple reason for this is that nothing can be said to be good, other than in a merely functionist sense, unless it is chosen. A morality that is not chosen is no morality. The moral status of those from whom Robin Hood robbed could not be said to have been elevated by the fact that their money went to help the poor for the simple reason that they did not freely choose to share their wealth. So, whatever other noble purposes one might want to identify with the forced sharing of wealth, morality cannot be one of them. In fact, the same question might be directed at the virtue of nobility, or heroism. Can a person be said to be noble or heroic if it were not a freely chosen action on his or her part that displayed either nobility or heroism? When freedom is absented from the context of morality, nobility, or heroism, the result is *non*sense in the truest meaning of the word.

Only beings with volition can be said to be moral, and in order to act in a moral way one must have liberty. In this understanding, liberty is not so much a virtue *per se* as much as it is the only context in which virtue is possible.

B. Two Levels of Morality

As one who believes in liberty, for myself and for others, I see two levels or sets of values that should be identified.

The first is the general context of relations among people, the overarching milieu in which people are allowed to associate and establish relations with one another. In this general social context, everyone's freedom extends precisely to the liberty of another. No one objects to the notion that people have the right to agree with one another; it is when people choose to *disagree* with one another that the clear line of freedom must be drawn. I submit that the only way in which a society can function that is consistent with human nature (which I will outline in due course) is the society wherein all relationships are voluntary and where the initiation of coercion is banned.

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This human (and I contend, humane) arrangement will provide for a wide pluralism, sufficient in its various manifestations, I am sure, to disturb and offend everyone reading this article. However, this arrangement will not allow anyone to force me to lend my moral sanction to his actions, or coerce me into supporting activities of which I do not approve.

The second set or level of values are those which pertain to the individual as he or she exercises his or her liberty. Again, these values will be diverse. For some, these values will be acquired on the basis of their family, culture, religion, and the like. The only limit on the exercise of their values will be that individuals agree to the equal right of others to pursue their own vision of morality. Here again, initiated coercion and fraud will be banned.

Thus, while two levels or sets of values may be identified, both political and individual freedom mean the absence of coercion by one of another.

C. The Uniqueness of Human Beings

Santayana once said, "to be is to be something in particular," and it is with this focus that we can explore what it is about humans that justifies their having rights and what those rights are.

One thing which the human person is "in particular" is a concrete body which puts the human person into some kind of relation with the material order. Observe how humans are related to the natural world in a way uniquely different from animals. Animals are bound to things by instinct; humans are related to things by reason, and this is the other thing which humans are in particular: We are self-reflecting, thinking beings who survive by the use of our reason. The mind is the predominant element which makes humans distinctly human. Thus, we are generically and essentially distinct from the animal which cannot reason. (I prescind here from the debate over whether some animals can reason; my focus here is on the human person.)

The rational relationship between the human person and nature is what gives rise to property. It is our capacity to reason, our rational faculty, which causes us to relate to the material order in a way that is more than immediate and temporary: our relation to the material order is, rather, general and permanent. Stability and permanency are the expression in time of the universality of the relationship of humans to things.

Nor is ours merely a relationship of consumption, but possession and production. Property is the foundation and context of this relationship. By the relationship of the human person to nature, we leave the imprint of our individuality upon nature by means of the time, effort, and ability we extend which in turn produces wealth and property.

Wealth and property do not exist in the state of nature, where, Hobbes said, life is "solitary, poor, nasty, brutish, and short." They come into existence only when people place value on things. This is seen in that black, sticky, smelly, unpleasant substance that was mostly an annoyance until a way was found to process and refine it in such a way that petroleum was produced. When viewed in this light, property rights are really an expression and a safeguard of the personal rights we discussed earlier. The defense of the right to property, then, ought not be seen as the defense of detached material objects in themselves, but of the dignity, liberty, and very nature of the human person who, to allude to Locke, has "mixed his or her labor with nature" to produce property. The right to property, then, is an extension and exercise of human rights.

Perhaps the greatest economist of this century, Ludwig von Mises, drew the connection between economic and personal liberty very clearly when he said, "Choosing determines all human decisions. In making his choice man chooses not only between various material things and services. All human values are offered for option." Milton Friedman put it this way: "Choice is fundamental to economics because it is fundamental to the moral nature of man."

It is crucial to recall that before becoming what some have called "the first economist," Adam Smith was a moral philosopher. Although he wrote the famous *Wealth of Nations*, few people realize that his companion work is entitled *Theory of Moral Sentiments*.

This brings us to what a society organized on the basis of these principles would look like.

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The Effects of Freedom

Throughout this article I have attempted to keep in focus the human person as the central actor. Hence, we are justified in asking how a free society would affect people. In discussions of the ideal of a free society one frequently hears voiced the contention that, while the theory is consistent and admirable and although maximum freedom is desirable, it is impractical given the present structures of our society. The liberals, these skeptics would argue, would be delighted with freedom in the bedroom but not in the marketplace, and the conservatives want freedom for big business, but not in the bedroom.

To this objection I would say, "A plague on both their houses." It *will* continue to be improbable to bring about a consistently free society if those of us who believe in the ideals of freedom refrain from questioning the wisdom of the status quo and buy into the standard left-right political continuum. Both sides of the political spectrum, to various degrees depending on the issue, become oddly similar when it comes to the means they intend to use to achieve their goals, namely force. There is an alternative. It is radical, in the sense that it goes to the root of the problem, and it is somewhat, dare I use the word, unorthodox.

But isn't this the case with all human progress? Most often an individual comes on the scene with a new idea, by definition unorthodox at the outset. Those in the status quo point out how this has never been done before and that if it were a good idea, someone would have already thought of it. This was probably the case when the first wheel was invented (We can hear them asking, "What's that for? Who needs it?"); when the combustion engine was developed ("It will scare the horses," they said at the time); the airplane ("Those Wright brothers are crazy anyway—people flying? Nonsense!"); and the development of the microchip. (This article was prepared on my faithful Kaypro computer, but the technology remains a mystery to me.)

If orthodoxy is coercively enforced, progress will be stifled and people will stagnate. Enforced orthodoxy, whatever form it takes, and it comes in a variety of shapes, sizes, and packages, simply means that someone or some group has decided to substitute their reason and perception for someone else's.

I sense the question forming in some minds at this juncture: Shouldn't the needs of the poor be met, and how will this take place in the kind of society organized along the lines you have sketched? I commend this social concern. Yet, for the poor to be lifted out of poverty, more than social concern is needed. Action is needed, specifically economic action.

People speak as though wealth is the natural state of humanity, as though it always existed and that the exception to this rule is its absence. Yet, even the most superficial overview of history belies this fantasy. It is wealth that is the exception: poverty and scarcity have been the norm. Capitalism hardly produced poverty; what it did do, however, was to produce sufficient wealth to show that poverty was not a necessity, that the masses were not condemned to live in abject material want. Poverty was the norm until a change took place in the ordering of social relations. Roughly speaking, this occurred in its most systematic and intellectually observable form in the founding of the United States and in the philosophical and moral thought which preceded it and was its *zeitgeist*.

Despite this clearly observable fact (i.e., that wealth has been the exceptional human circumstance and poverty its most frequent), very few moralists have ever asked: What are the moral conditions crucial to the production of wealth? Even within my own, expansive, Roman Catholic tradition, most of the discussion has centered on distributive justice, with very little attention to productive justice. I suggest that such an approach is to have the cart before the horse.

At the outset of this essay I referred to Lenin's observation that ideas are more fatal than guns. This is the case when ideas are warped, when they fail to include the whole picture, or when they are employed coercively.

I trust that the preceding set of ideas, which has attempted to display the interconnection between morality and freedom, will prove to be anything but fatal, and that they will indicate a preferable, more humane way to order social relations. □

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A REVIEWER'S NOTEBOOK

Debts and Deficits

by John Chamberlain

Hans F. Sennholz, who has been featured for years in *The Freeman,* still counts in his native German, but otherwise he both thinks and writes in as forceful English sentences as anyone is apt to see. His book called *The Politics of Unemployment* was reviewed in this space in the December 1987 issue. It made the incontestable point that labor laws, including the minimum wage, keep wages from falling to levels that would clear the market and create full employment.

Now Professor Sennholz has come out with a new book called *Debts and Deficits* (Libertarian Press, Spring Mills, PA 16875, 189 pp., $7.95 paper). It makes the point that deficits do matter. The time must come when bad investments have to be written down or written off. So we face a coming storm at some indeterminate future. The economists will be quick to say that credit contraction is the cause of the depression, or recession, or whatever. But Sennholz tells us that most economists are poor historians. The credit contraction is a symptom of the readjustment process, not the cause.

The depression of the 1930s was, says Sennholz, the inevitable consequence of the credit expansion that preceded the contraction. (Here he follows his Austrian mentor, Ludwig von Mises.) The difficulties were compounded in 1929 and after by stupid political policies everywhere. Economic nationalism eroded the world division of labor. The Hawley-Smoot tariff, passed in 1930, raised American tariffs to levels that practically closed our borders to foreign goods. Other countries were quick to retaliate. Our export industries fell into deeper and deeper depression, and our farmers, who had been struggling anyway, could no longer make ends meet.

The obvious cure in 1932 would have been to take government off peoples' backs. But in the midst of depression which had an unemployment rate of 20 per cent, Congress doubled the income tax. Estate taxes were boosted, gift taxes were levied with rates going as high as some 33 per cent. Hoover stood for all of this, but Roosevelt did no better. His National Industrial Recovery Act increased payrolls, which momentarily added to the purchasing power of a few but took investment money away from non-monopolistic businesses. Peoples' gold holdings were confiscated. The Agricultural Adjustment Act destroyed little pigs and cut the planting of crops, which raised the price of food in the cities. The National Labor Relations Act, which created the National Labor Relations Board, led to thousands of strikes.

As Sennholz says, individual enterprise at this point "just did not have a chance."

No two periods are ever precisely alike, but Sennholz doesn't think our politicians have learned much from the Thirties that would be applicable today. We still talk of raising taxes. We still believe in the spread of redistributive entitlements.

The interesting thing about Sennholz's proposals is that he doesn't blame our politicians for the fix we are in. He blames the moral condition of the country. In a final chapter called

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Debts and Deficits

by Hans F. Sennholz

I OWE YOU

Debts and Deficits is published by Libertarian Press and is also available from The Foundation for Economic Education. 189 pages, paperback **$7.95**

"Eternal Hope: A Moral Standard" Sennholz, following Leonard Read, says that reform, like charity, must begin with the individual. "Once accomplished at home," he writes, reform "will radiate outward, kindle new light, and spread in geometric proportion. The true reformer is a seminal reformer, not a radical. He does not pass laws that mandate the reformation of others. He himself makes a beginning and does not think of himself as a reformer. The world may reject him as odd, impractical, and even irrational; but he clings to his principles, regardless of the world around him. There is boldness, a spirit of daring, in the heart of a reformer."

Our transfer system is based on political expedience, but it is also founded in political immorality. Here Hans Sennholz invokes the eighth and tenth Commandments. Theft and covetous yearnings cannot be justified by bringing government into the picture. There won't be much change until individuals begin to take Mosaic law seriously. Sennholz suggests that individuals should be informed of the nature and source of their Social Security benefits. Every check should carry a stub that reveals the cumulative amount of benefits received as of that check. The shocking revelation that one has withdrawn $69,501.15 when he or she has contributed a paltry total of $817.15 would "soon silence the most common defense: 'I paid in.' "

When the total benefits received in retirement exceed the contributions made during working years, a Social Security recipient should submit to a means test. Those who can cover their own expenses should be expected to do so. Millionaires should be expected to pay their own bills. Anyone willing to assume self-responsibility for old age and medical expenses should be encouraged to do so.

Sennholz, seeking a dismantling of Social Security and Medicare in an orderly fashion, suggests beginning with a spending freeze that would call a truce in the political struggle. Senator Domenici of New Mexico has proposed that Congress freeze Fiscal Year 1988 budget authority at Fiscal 1987 levels. Fiscal 1987 spending has been estimated at $1 trillion and revenues at $850 billion. Predictably revenues will rise to $996 billion in 1989 and to $1.058 trillion in 1990. Assuming a freezing of expenditure levels at 1987 levels until 1990, the Federal budget would then be in the black.

The Domenici proposal is better than nothing, but Sennholz says it still attacks symptoms instead of the disease. The root cause of evil, the transfer mentality, would remain to generate outlays under conditions of surplus faster than revenue can be collected. □

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ECONOMIC LIBERTIES AND THE JUDICIARY

Edited by James A. Dorn and Henry G. Manne

George Mason University Press, 4400 University Drive, Fairfax, VA 22030 • 1987 • 414 pages • $28.00 cloth; $15.75 paperback

Reviewed by Tommy W. Rogers

Economic Liberties and the Judiciary consists of twenty-three essays by scholars from academia and jurisprudence who deal with the theory and practice of constitutional interpretation and the manner in which economic issues have been handled by the courts. They address such issues as the growing failure of the judiciary to protect economic liberties of human rights in property; the legitimate role of the judiciary—and of government and law generally—in a free society; and the implications of the demise of substantive due process when dealing with economic relationships and the market order. This volume challenges and reassesses attitudes that have long dominated constitutional law and have provided the operative notions for public policy. Now, for the first time in a generation, disciples of the current doctrine of "misguided judicial activism" are being forthrightly challenged on doctrines they have accepted on faith since the New Deal. This confrontation is important because the debate over the Constitution with respect to its guarantees of human rights in property and in economic liberty is, as the editors put it in their Introduction, "a debate over whether the Constitution will survive as a charter for limited government and individual freedom. . . ." □

AMERICA'S MARCH TOWARD COMMUNISM: FORSAKING OUR HERITAGE

by Mark W. Hendrickson

Libertarian Press, Spring Mills, PA 16875 • 1987 • 102 pages
$6.95 paperback

Reviewed by Carl O. Helstrom, III

Mark Hendrickson systematically discusses the ten points of the *Communist Manifesto* in light of twentieth-century legislation and popular opinion in the United States, and makes a strong case for his thesis: "The United States has marched far down the road to Communism," in the sense that we have enacted into law the very agenda proposed by Marx in 1848. At the same time, Hendrickson makes a strong case for the free market economy.

Following the step-by-step treatment of the *Communist Manifesto,* the author suggests ways to reverse the "march." He recommends three constitutional amendments and adds "A Call to Action."

This monograph will be useful to anyone reading or rereading the early works of Marx—and it carries a powerful message for those who may have forgotten that the important battles are in the realm of ideas. □

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The ideal of freedom is to let anyone do anything he pleases, as long as his behavior is peaceful, with government empowered to keep the peace—and nothing more. An ideal objective, true, but one that must be pursued if we would halt the continuing descent of our society from bad to worse. Nothing short of this will suffice. And unless we fully understand the ideal—and what makes for its attainment—we'll tend to settle for powerless, futile little pushes and shoves that yield no more than a false sense of something done.

—Leonard E. Read

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